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Opportunities for Private Sector Investment in the Malawian Agricultural Sector

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Methodology

Information contained in this report was captured and qualified over a four-month period by Monitor Group. The data used to inform the recommendations was derived from both primary and secondary research. As part of this research, more than 75 individuals—representing a cross-section of agribusinesses, investors, donors, NGOs, and public sector actors across Malawi—were interviewed in order to gather a wide range of perspectives on agricultural investment opportunities and key enabling environment requirements.

Disclaimer

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Acronyms & Abbreviations

ACE	African Commodity Exchange
AfDB	African Development Bank
AH	Auction Holdings
ASWAp	Agriculture Sector Wide Approach
BESTAP	Business Environment Strengthening Technical Assistance Project
CAADP	Comprehensive African Agricultural Development Programme
CAGR	Compound Annual Growth Rate
CFM	Caminhos de Ferro de Mocambique
CLIN	Northern Integrated Logistical Corridor
COMESA	Common Market for Eastern and Southern Africa
CDI	Clinton Development Initiative
CSB	Corn Soya Blend
DCAFS	Donor Community on Agriculture and Food Security
EDF	Export Development Fund
ESCOM	Electricity Supply Corporation of Malawi
EU	European Union
FANPRAN	Food, Agriculture and National Resources Policy Analysis Network
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FISP	Farm Input Subsidy Programme
FUM	Farmers Union of Malawi
GBI	Green Belt Initiative
GDP	Gross Domestic Product
GoM	Government of Malawi
HQCF	High Quality Cassava Flour
IFPRI	International Food and Policy Research Institute
IMF	International Monetary Fund
IPS	Integrated Production System
MBS	Malawi Bureau of Standards
MCC	Millennium Challenge Corporation
MCCCI	Malawi Confederation of Chambers of Commerce
MDG	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
MITC	Malawi Investment & Trade Centre
MWK	Malawian Kwacha
MoAFS	Ministry of Agriculture and Food Security
MoEDP	Ministry of Economic Development and Planning
MoF	Ministry of Finance
MoIT	Ministry of Industry and Trade
MoL	Ministry of Land

MoNREE	Ministry of Natural Resources, Energy, and Environment
MoT	Ministry of Transport
MRA	Malawi Revenue Authority
MWK	Malawian Kwacha
NASFAM	National Smallholder Farmers Association of Malawi
NGO	Nongovernmental Organization
NES	National Export Strategy
OPC	Office of the President and Cabinet
PACE	The Presidential Advisory Committee on the Economy
PIPaH	Presidential Initiative for Poverty and Hunger Reduction
PPP	Public Private Partnership
RBM	Reserve Bank of Malawi
RUTF	Ready to Use Therapeutic Food
SACCO	Savings and Credit Cooperatives
SADC	Southern African Development Community
SGR	Strategic Grain Reserve
SHF	Smallholder Farmer
SWAp	Sector Wide Approach
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
WFP	World Food Program
bn	Billion
Ha	Hectare
km	Kilometer
mm	Millimeter
mn	Million
MT	Metric Ton
sq km	Square Kilometer

Table of Contents

Table of Figures

Executive Summary

This report is intended for parties that are interested in investing in the agricultural sector in Malawi, especially regional and international investors. It provides an overview of Malawi's agricultural investment landscape, including details about the country's economy, its prevailing agro-climactic conditions, key initiatives that the Government of Malawi (GoM) is undertaking to facilitate private sector investment in agriculture, and high-potential investment opportunities across several agricultural value chains. It also identifies several potential barriers to investing in Malawi and strategies currently underway to overcome them.

Malawi is investment ready and has an abundance of opportunities in the agriculture sector that private sector actors can leverage. As a politically stable Southern African country (Figure 1), Malawi's economy is primarily driven by agriculture. The vision outlined for Malawi in the country's Growth and Development Strategy for 2012 onwards is to transform Malawi from a country reliant on imports and consumption to one reliant on exports and manufacturing. The GoM recognizes that in order to achieve this vision, it is essential to foster an environment that attracts investment to create value from the country's existing assets. Malawian agriculture possesses several inherent benefits which can attract investment. These benefits include: strong means of agricultural production; abundant water supplies; farmer capabilities born from a history and culture of agricultural production; and growing regional and local markets. Investor access to these opportunities is easing as the new administration, led by President Joyce Banda, has expressed a strong desire for private sector-led growth and is working on creating a strong enabling environment for investment through policy reforms and overall strategy definition. The GoM's co-investment in turnkey infrastructure projects that unlock Malawi's immense potential for irrigation and overcome barriers to the ease of doing business is also facilitating investor access to the country's lucrative opportunities, making Malawi a prime destination for agriculture investment.

Figure 1: Map of Malawi, and Location in Africa

Economic Overview

Malawi's economy showed strong growth between 2006 and 2011, with Gross Domestic Product (GDP) growing at 12.8% per annum[1], higher than the sub-Saharan African average and driven primarily by growth in the agriculture and mining sectors.

In the past, Malawi faced some macroeconomic challenges partly stemming from government control of the economy under the previous administration. However, the new administration has acknowledged the need for change and, after an extended period of currency control, has allowed the floating of the Malawian Kwacha on the open market in 2012, in order to meet International Monetary Fund

[1] International Monetary Fund, World Economic Outlook Database, April 2012

requirements and to signal willingness to operate an open economy. Even though there have been short-term effects such as increased inflation, the floating is expected to lead to increased exports going forward.

The country has experienced fluctuating but upward trending Foreign Direct Investment (FDI) and is expected to continue to receive higher levels of FDI as the government enacts policies that foster a more enabling business environment, currently the key focus area of the new administration.

Malawi does not rank strongly (157 out of 185 countries) on the World Bank's "Ease of Doing Business" index.[2] The key points of weakness identified include the difficulties involved in getting access to electricity, dealing with construction permits, and trading across borders. However, Malawi does fare better in other categories such as the ease of paying taxes, protecting investors, and registering property. While it is acknowledged that the poor performance in 2012 can largely be attributed to the non market-friendly stance of the previous administration, the new leadership has expressed willingness to enact and implement the necessary reforms to substantially improve Malawi's standing within the next few years.

Agriculture Sector

The agriculture sector plays a significant role in Malawi's economy and contributes nearly a third of GDP. The sector grew at 8.9% per annum between 2006 and 2011[3]. As the largest single contributor to GDP, growth in agriculture is crucial to the economy and continues to be a focus area for the government. The government's Farm Input Subsidy Programme (FISP) that was started in 2005 to foster food security by increasing smallholder farmer (SHF) access to inputs has been seen to be a big contributor to this growth. Historically, Malawi has been dependent on tobacco for foreign currency earnings, which has left the country vulnerable to external economic shocks. Diversification has therefore become central to government strategies for growth and development.

Malawi possesses the resources to be a strong agricultural actor in a variety of value chains due to its abundant means for agricultural production, including:

- **Water resources**: Over 20% of Malawi's land area is covered by water. The exceptional potential for irrigation along parts of the shoreline of Lake Malawi and in the Shire Valley could lead to significant production and yield increases, and hence returns for investors in the sector.
- **Good agro-ecological conditions:** Malawi possesses the climatic conditions and fertile soils that can support a wide array of crops including cereals, pulses, fruits and vegetables.
- **Land**: There are 5.4 mn ha of arable land in Malawi, covering 45% of the country's land area. Over 1 mn ha of this land is currently not being used for agricultural production. Utilizing this land could lead to significant benefits for the country. The majority of this underutilized land is customary land, which is not registered and therefore is difficult to access as an investor. The review of the Lands Bill, ongoing in 2012, will increase access to this land by mandating the registration of customary land and decentralizing the land registration process from the regional level to the district level, thus shortening the time taken for the land access process.

[2] World Bank, Doing Business 2013, Smarter Regulations for Small and Medium-Size Enterprises

[3] International Monetary Fund, World Economic Outlook Database, April 2012

- **Growing population with skills in agriculture:** Malawi has a long history of agriculture and its population possesses at least the basic skills for agriculture.

There is significant market potential for products from Malawi, locally and in the region. Locally, the population is growing at 2.9% per annum and is predicted to reach 40 million by 2040. The buying power of this population is increasing due to growing Gross National Income per capita which increased from USD 146 to 230 between 2000 and 2009, an increase of 58%[4]. As income increases, demand for food has been growing due to the tendency to disproportionately allocate increases in income to food. In the SADC region, consumption has been increasing rapidly due to economic growth, leading to significant growth in Malawi's exports to these markets. The "land-linked" nature of Malawi puts it in proximity to multiple countries, including Mozambique and South Africa, both of which are forecasted to experience rapid growth in consumption and both of which Malawi has bilateral trade agreements with.

Government Initiatives to Accelerate Investment in Agriculture

Despite the significant agricultural potential that Malawi possesses, this potential is largely untapped. As a developing economy, Malawi experiences challenges in its business environment such as underdeveloped infrastructure and slow procedures, such as for attaining an export certificate or business license. However, Malawi is currently at a point in its history when it is at the confluence of international attention and internal momentum in seeking growth that is led by the private sector. The new administration, led by President Joyce Banda, has been spearheading initiatives to increase the ease of doing business, to demonstrate to investors that Malawi is ready to compete on the global market and to highlight that Malawi can offer them significant and stable returns for their investment. For example, the government has been focusing on using an informed approach to identifying economic opportunities that the government can leverage and drive through the Presidential Advisory Committee on the Economy (PACE). Also, the current government has shown agility in prioritizing the review of policies that improve the business environment and has also shown a willingness to co-invest with the private sector by funding start-up infrastructure and basic capacity building to ease private sector participation. Some examples of strides taken by the government include:

- **Overarching strategies**: Economy- and sector-wide strategies that highlight the government's priorities and harmonize government, donor and potentially private sector action around the same focus areas, thereby augmenting the benefits realized.
- **Policy reform**: Putting in place policies that are directly aimed at improving the environment for business, such as the Investment and Export Promotion Bill, Business Registration Bill, Malawi Bureau of Standards Bill and the Public Private Partnership Bill that were all reviewed and approved in 2012.
- **Co-investment in turnkey infrastructure projects**: Co-investment and support of infrastructure for transportation, irrigation and energy, etc. For example, the Green Belt Initiative (GBI) was developed to harness Malawi's significant irrigation potential through public private partnerships, easing private sector participation in agriculture and demonstrating the GoM's willingness to co-invest.
- **Attractive investment incentives**: Malawi has put in place attractive incentives to drive participation in the local economy, particularly in value addition, manufacturing and exports.

[4] United Nations Data, World Statistical Pocketbook

There are a large number of projects and initiatives currently ongoing in Malawi, spearheaded by the GoM, donors and the private sector, that aim to mitigate against the risks faced by private sector actors within value chains, including political, financial, supply chain and market risks.

Investment Opportunities in Malawian Agriculture

An analysis of government priority product clusters and focus areas, donor priority value chains and private sector perspectives led to the identification of five value chains for short-term investment and five secondary value chains for medium- to long-term investment. The short term investment value chains were selected based on market attractiveness, Malawi's competiveness within these value chains, social impact and investor interest. These are: groundnuts, maize, pigeon peas, soybeans and sugarcane.

- **Groundnuts:** There is strong domestic, regional and global demand for groundnuts and their associated products. Malawi has a history of supplying high quality groundnuts, particularly of the Chalimbana variety[5], to the global market. In recent years, Malawi has experienced growth in production of groundnuts, and is currently producing 104% above regional average production volumes. Groundnuts have a high potential for social impact due to the large number of potential processed products including peanut oil, peanut paste and livestock feed, to mention a few. This multiplicity of value addition options creates a multiplier effect in the economy by allowing the participation of many actors, creating employment and alternative markets for the single product. One challenge that remains and is receiving significant attention from the government and donors is aflatoxin infection that occurs during the post harvest handling process. However, innovative companies have successfully circumvented aflatoxin issues and are experiencing growth.
- **Maize**: Maize is the main staple food consumed in Malawi, and there is high demand for maize and maize products. Maize production grew significantly from 2006 to 2010, with a compound annual growth rate of 7%. This is relatively high compared to the other value chains in Malawi and is above global average production growth rates of 4%[6], driven, in part, by the Farmer Input Subsidy Program (FISP) which has increased SHF access to inputs for maize. In Malawi, maize is grown by the majority of SHFs and so there is significant potential for social impact inherent within the value chain. Despite maize being considered as primarily a food security crop, there is recognition that Malawi can be competitive in the sub-sector if yields are increased and SHFs continue to increase use of improved inputs.
- **Pigeon Peas**: Numerous market opportunities exist for the supply of pigeon peas, both domestically, to local processors and globally due to high demand in Asia, particularly in the Indian market, which is the largest producer and consumer of pigeon peas. Malawi, already being the third largest producer of pigeon peas worldwide, is in a good position to further increase its volumes and serve this demand. There is also demand for the uniquely flavored Malawian pigeon pea varieties, and Malawi has recently received interest from Indian companies to purchase higher volumes of the crop.
- **Soybeans:** The attractiveness of soybeans as a commercial crop comes from high global demand for soybeans and soybean products, including value-added products such as oil, cake, and soy

[5] Imani Development, "Staple Foods Value Chain Analysis: Country Report – Malawi", 2010

[6] FAOSTAT, International Trade Centre

sauce, to name a few. Investor interest in soybeans was found to be high in Malawi due to numerous opportunities for value addition and the demand in regional markets.

- **Sugarcane**: Malawi has a competitive advantage in sugarcane, as evidenced by its considerably higher productivity and yields than regional competitors - Malawi boasts yields of more than 62% above the regional average[7]. This highlights the potential for significant increases in production volumes if land area under sugarcane cultivation is increased. There is growing SHF engagement in sugarcane which will increase social impact. Opportunities exist for private sector actors at both the production and processing stages of the value chain.

Specific opportunities that are investment ready were identified in each of these value chains. Other value chains with potential, but with some barriers that must be overcome in the medium-term were also identified for longer term focus, these being cassava, cotton, macadamia nuts, rice and tea. There are opportunities for private sector participation within all of these value chains, as well as opportunities to increase value created and retained within Malawi. The majority of opportunities identified for Malawi are opportunities for value addition as a significant gap exists within most value chains, with commodities being consumed or exported with limited processing.

Malawi possesses numerous potential opportunities in agriculture that are ready for investment. Recognizing that the agriculture sector is central to the country's success, the government has shown strong commitment to easing private sector participation in the sector, and is eager to assist any interested investor in taking advantage of short- and long-term agricultural opportunities. Reforms being rolled out by the new GoM administration will improve the environment for doing business in the country. In addition, turnkey projects to harness the exceptional irrigation potential of Malawi are underway and have the potential to increase agricultural productivity and production. For investors who are interested in participating in Malawi's value chains, this is an optimal time to invest. Entry into the agriculture sector can be facilitated by engaging the Malawi Investment and Trade Center (MITC), which will guide investors through the investment process in Malawi.

[7] FAOSTAT, International Trade Centre

1. Purpose and Intended Audience

The Government of Malawi recognizes the importance of the agricultural sector to the overall economy and seeks to support its success. To facilitate investment, this report provides an overview of Malawi's agricultural investment landscape, highlighting key opportunities for private sector investment. Specifically, it:

- Highlights why Malawi is an important destination for agricultural investment
- Offers insight into Malawi's economic environment, including details on its Gross Domestic Product (GDP), "Ease of Doing Business" ranking, and production and consumption market dynamics
- Provides an overview of Malawi's agro-climatic conditions and key crop statistics (e.g., production, consumption, exports, and imports)
- Explains several key initiatives that the Government of Malawi is undertaking to develop the country's agricultural sector, including its Agriculture Sector Wide Approach, National Export Strategy and Green Belt Initiative
- Reviews the barriers to private sector investment in Malawi and the strategies and activities the Government of Malawi, donors, and private enterprises are considering or already implementing to mitigate them
- Highlights several value chains for private sector investment, including the rationale for potential short term investment in five prioritized value chains (soybeans, groundnuts, maize, pigeon peas and sugarcane)

The intended audience for this document is prospective investors in Malawi's agricultural sector, including regional and international investors that may be in the exploratory stages of investing in Malawi.

2. Economic Overview of Malawi

2.1. *About Malawi*

Malawi is a Southern African country, bordered by Mozambique to the east and south west, Zambia to the west and Tanzania to the north. It covers 120,000 sq km in area and is 896 km in length, and 80 – 160 km in width. Lake Malawi is the country's most prominent feature, covering a fifth of the land area. The country is demarcated into three major regions - Northern, Central and Southern. Lilongwe, the capital city, has a population of just less than 1 million people. Blantyre City is the Southern provincial capital, and is the country's commercial and manufacturing hub. Mzuzu is the main city in the Northern Province. Malawi has had a multi-party democracy system since 1994, and the current president, Her Excellency Joyce Banda, has been in office since April of 2012 when former president Bingu wa Mutharika passed away midway through his term. Malawi is dubbed the "Warm Heart of Africa" because of its hospitality and friendly people.[8,9] Figure 2a and 2b show maps of Malawi and its key features and regions.

Figure 2a: Map of Malawi – Key Features

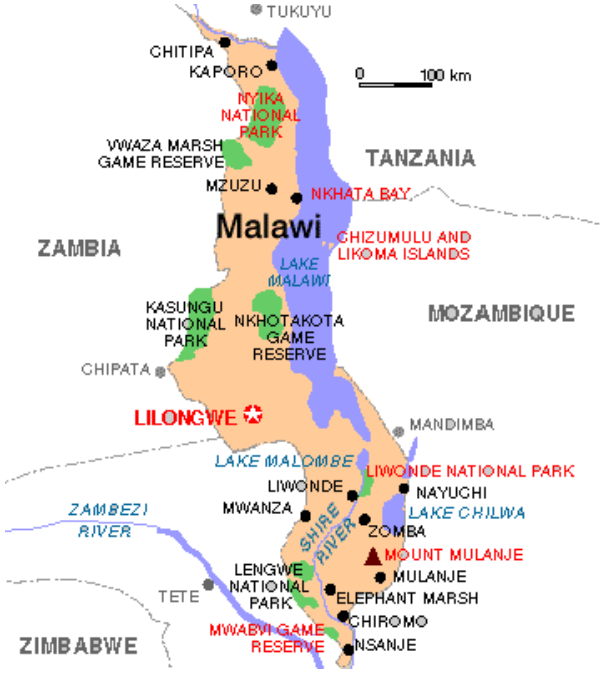


Figure 2b: Map of Malawi – Regions

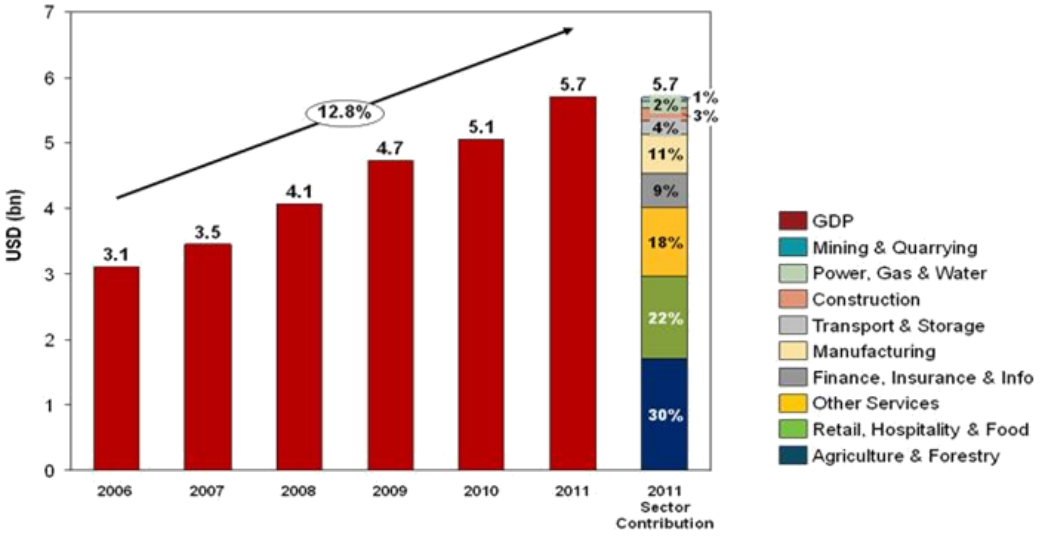
2.2. *Economic Performance*

Malawi's economy has shown strong growth over the last several years, with a compound average growth rate in Gross Domestic Product (GDP) of 12.8% between 2006 and 2011, as shown in Figure 3.

[8] United Nations, Malawi, Discover Malawi

[9] Maps of the World

Figure 3: Annual GDP of Malawi (2006 – 2011), And Sector Contribution (2011)[10]



This historical growth has been higher than the average growth in sub-Saharan Africa, and is projected to soften but remain positive at around 5% going forward. The largest sector contribution to the economy was from the agriculture sector. Overall economic growth was primarily driven by growth in the agriculture and mining sectors. In agriculture, real growth in 2009 was 13.9%, driven by a bumper harvest season due to good rainfall and farmer access to inputs through the government's Farm Input Supply Programme (FISP). Dry spells in 2010 slowed down growth but it rebounded in 2011. The mining and quarrying sector, though new and emerging, grew by 83% in 2010, and was projected to grow by 72% in 2011 due to uranium production at the Kayelekera Uranium Mine in Karonga.[11]

From a political standpoint, Malawi is stable and is projected to remain so. Malawi's growth has, however, been closely related to its political environment. In 2011, the growth rate slowed down driven by reduced donor contributions[12] due to suspended budget support from the International Monetary Fund (IMF). The transition of presidency to Joyce Banda, who has continuously expressed and demonstrated the new government's willingness to change and engage in reforms to improve the business enabling environment, has ushered in a new era of policy making which is projected to positively impact the country's growth trajectory.

2.3. *Currency Stability, Inflation and FDI*

In 2012, one of the first steps towards liberalization of the economy by the new administration, led by President Joyce Banda, was to allow the Malawian Kwacha to be floated on the open market against the United States Dollar and other major currencies after being largely controlled for several years. The Malawian Kwacha depreciated by over 40% relative to the United States Dollar. This move was made by the government in line with its commitments to the International Monetary Fund (IMF) to engender a market-driven economy.[13]

[10] International Monetary Fund, World Economic Outlook Database, April 2012

[11] Africa Economic Outlook, Country Report for Malawi, 2012

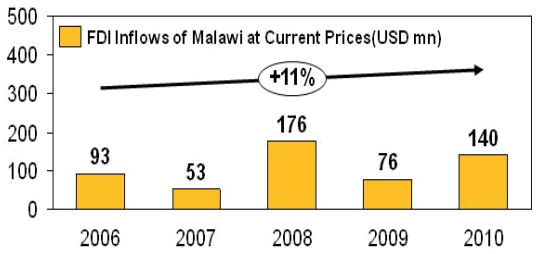
[12] Africa Economic Outlook, Country Report for Malawi, 2012

[13] Africa Economic Outlook, Country Report for Malawi, 2012

Inflation, as measured by Consumer Price Index, was fairly stable and in the single digits between 2005 and early 2011, remaining at an average of 8%. Increased local food production contributed to inflation control in this period. A jump in inflation was experienced in late 2011, with inflation increasing to 9.8% by September[14] and subsequently rising to a high of 28.3% a year later in September of 2012[15]. This rise was driven by food and fuel prices and the devaluation of the Malawian Kwacha[16].

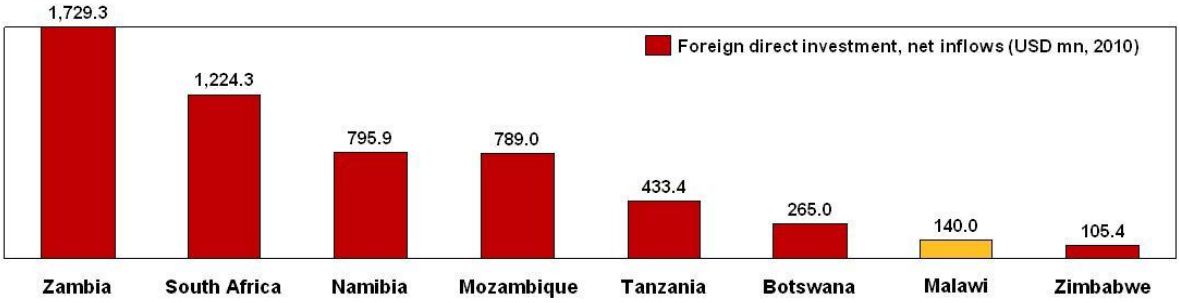
The country has experienced fluctuating but upward trending Foreign Direct Investment (FDI). In 2010, FDI was USD 140 million[17] as in Figure 4, directed mainly at the manufacturing, tourism and services sectors, and representing 3% of GDP. FDI in agriculture and agriculture related industries is covered in Section 3, which discusses the agriculture sector and recent investment activity in the sector.

Figure 4: FDI Inflows to Malawi



When compared to other SADC countries, Malawi received comparably less FDI as shown in Figure 5. However, the government's willingness and efforts to address the institutional and policy environment will facilitate increased opportunities for investment by foreign firms going forward.

Figure 5: FDI Inflows to SADC Countries (2010)[18]



[14] International Monetary Fund, World Economic Outlook Database, April 2012

[15] National Statistical Office of Malawi, Consumer Price Indices Dashboard, October 2012

[16] Think Africa Press, "Facing the Costs of Food Insecurity and Rising Prices", 28 September 2012

[17] World Bank, World Data Bank

[18] World Bank, World Data Bank

2.4. *Ease of Doing Business*

Despite recent economic growth, the business environment is still facing some of the challenges that are common in emerging economies. Performance on the World Bank's "Ease of Doing Business Report" for 2013 was low, particularly in relation to neighboring countries and the sub-Saharan Africa average, as shown in Figure 6.

Figure 6: Ease of Doing Business Performance vs. SADC Countries & sub-Saharan Africa Average

Ease of Doing Business Rankings, 2013	
Country	Rank (of 185)
South Africa	39
Botswana	59
Namibia	87
Zambia	94
Tanzania	134
Sub-Saharan African Average	140
Mozambique	146
Malawi	157
Zimbabwe	172

Malawi's Ranking per Metric, 2013	
Metric	Rank (of 185)
Paying Taxes	58
Protecting Investors	82
Registering Property	97
Getting Credit	129
Starting a Business	141
Enforcing Contracts	144
Trading Across Borders	168
Dealing with Construction Permits	175
Getting Electricity	179

Malawi's overall ranking dropped by six positions since 2012 from 151 to 157. The primary contributors to Malawi's low performance were access to electricity, dealing with construction permits, and trading across borders. Getting access to electricity in Malawi can take up to 222 days, and is a costly process that often requires the individual or business to bear some, if not all, of the cost of installation. Trading across borders requires the exporter to process on average ten different documents, and the process can take up to 43 days. This long procedure is especially challenging in the food industry as it puts pressure on product shelf life.[19]

Some of Malawi's more positive indicators on the Doing Business Report include the ease of paying taxes, protecting investors, and registering a property. The GoM and the donor community have been making efforts to directly impact performance on the Ease of Doing Business measures through the Business Environment Strengthening Technical Assistance Project (BESTAP) that was developed in 2007. This project aimed to improve the environment for doing business by reducing the regulatory burden and costs of doing business; improving service delivery to the private sector; increasing access to finance for SMEs; and strengthening support for technical and business management skills, thereby improving productivity and competitiveness at the firm level. It was implemented using USD 18.7 million funding from the World Bank and the European Commission.[20] BESTAP has spearheaded such initiatives as the creation of a Commercial Court that focuses solely on commercial disputes, and which has significantly shortened the amount of time to reach resolution from over 360 days to less than 90 days. The Program

[19] World Bank, Doing Business 2013, Smarter Regulations for Small and Medium-Size Enterprises

[20] World Bank, Business Environment Strengthening Technical Assistance (BESTAP), Project and Operations

has also facilitated the digitization of business registration documentation, land records and immigration documents, which will decrease the time that the related procedures have historically required.[21]

Malawi's low performance in the latest "Ease of Doing Business" rankings can largely be attributed to the lack of market-oriented policies under the previous administration. With the increased focus on private-sector led growth, the new government has a strong desire to improve the country's standing on the survey, as recently reiterated at the Dubai World Energy Forum by President Joyce Banda, who stated that the goal for Malawi is to be in the top 100 countries within the next five years[22]. The new administration is willing to implement reforms, some of them already underway, to foster an increasingly enabling environment for private sector investment. While some of these changes will require time to implement, the new direction has been clearly articulated.

[21] Primary Interview, Malawi, August – September, 2012

[22] Nyasa Times, "Malawi open for business: JB makes her case at Dubai World Energy Forum", 22 October 2012

3. Agriculture in Malawi

Agriculture is an important sector for Malawi's economy. Between 2006 and 2011, agriculture contributed on average 30% to Malawi's GDP[23]. The sector has grown at 8.3%[24] per annum over the same period, and will continue to be an essential focus area for Malawi for the foreseeable future. Malawi possesses significant resources that can support a strong agricultural sector; among these are good agro-ecological conditions for a variety of crops, abundant water supplies that offer exceptional potential for irrigation, fertile soils and a growing population with the basic skills for agriculture. Leveraging these resources could lead to significant increases in Malawi's agricultural productivity. At present, Malawi is a net importer of many crops, despite possessing the conditions to support significant agricultural output. The following sections detail the country's means of agricultural production, the existing market potential, some key crop statistics and highlights of investment in agriculture and related sectors.

3.1. *Agro-Ecological Zones*

Malawi has five distinct agro-ecological zones that have unique altitude, temperature, rainfall and soil characteristics. The five zones are the Highlands, Escarpment, Plateau, Lakeshore and Upper Shire Valley, and Lower Shire Valley[25]. The different fertile soils and varied conditions support both rain-fed and irrigation agriculture and position Malawi to be a strong diversified agricultural actor. The five zones are detailed in Figure 7 and are shown on a map in Figure 8:

Figure 7: Key Characteristics of Agro-Ecological Zones[26]

Agro-Ecological Zone	Description	Elevation (meter)	Average Annual Rainfall (mm)	Examples of Suitable Crops
Highlands	High rainfall, high altitude and low average temperature	1,320 – 3,000	>1,200	Wheat, coffee, tea
Escarpment	Lies along the Rift Valley fault lines, high rainfall and thin fertile soils	450 – 3,000	1,000 – 1,200	Maize, millet, cashew nuts
Plateau	High rainfall, good soils, temperate, houses Malawi's bread basket	750 – 1,300	800 – 1,200	Maize, groundnuts, tobacco, soybeans
Lakeshore & Upper Shire Valley	Low rainfall, highly fertile, high temperatures, suitable for irrigation agriculture	465 – 600	600-800	Rice, sugarcane, pigeon peas
Lower Shire Valley	Very low rainfall, highly fertile, high temperatures, suitable for irrigation agriculture	<180	600	Millet, sorghum, maize, vegetables, cotton

[23] International Monetary Fund, World Economic Outlook, 2012

[24] World Bank, Work Databank

[25] Food and Agriculture Organization, Malawi Country Pasture / Forage Resources Profiles; SADC Multi-Country Agricultural Productivity Programme, "Analysis of the Agricultural Technologies and Dissemination Situation of Malawi," 2007; Ministry of Agriculture and Food Security Crop Statistics by District

[26] SADC Multi-Country Agricultural Productivity Programme, "Analysis of the Agricultural Technologies and Dissemination Situation of Malawi," 2007

3.1.1. Highlands

The Highlands are found in the Nyika, Vipya, Mulanje, Dedza, Zomba, Thoylo, Mulanje, and Blantyre districts. They experience fairly high rainfall, have relatively low temperatures and are suitable for growing crops such as coffee, wheat, and tea.

3.1.2. Escarpments

The Escarpments lie along the Rift Valley fault lines and run from Karonga in the North to Nsanje in the South. These areas have thin fertile soils that are vulnerable to excessive cultivation and support growing crops such as grains.

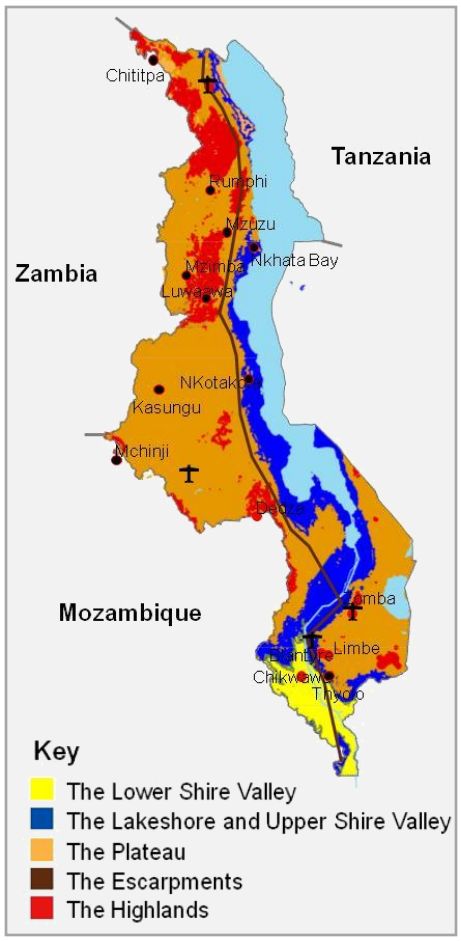
3.1.3. Plateau

The Plateau covers around 75% of Malawi's land area. The soils range from well drained sandy soils in the higher altitudes to slow-drained clays in the lower altitudes. A section of this agro-ecological zone, referred to as the Kasungu-Lilongwe Plain, is considered to be the bread-basket of Malawi and has the highest farming population in the country. The Plateau supports crops including maize, tobacco, soybeans and groundnuts.

3.1.4. Lakeshore and Upper shire Valley

The Lakeshore and Upper Shire Valley extends from the shores of Lake Malawi, down towards the southern part of the country and occupies 8% of the country's land area. The land ranges from flat to undulating, temperatures are higher and rainfall is moderate. This area supports crops such as rice and sugarcane along the lakeshore and pigeon peas in the south. In addition, there is potential for horticulture in this region.

Figure 8: Agro-Ecological Map



3.1.5. Lower Shire Valley

The Lower Shire Valley extends from Blantyre and Limbe to the southern most tip of the country. The Shire River flows through marshes and plains in this zone, rainfall levels are very low and temperatures are high. The agro-ecological environment supports the growing of sorghum and millet. However, this area is very fertile and could support irrigation and crops such as sugarcane, maize and vegetables. There exists a large, fully irrigated sugarcane plantation in this region, which leverages the area's abundant water supply. The potential for irrigation in this zone is such that if it were to be further developed, this region has the potential to feed the entire country. Paradoxically, the south is often plagued by hunger due to erratic rainfall and resource underutilization.

3.1.6. Land Utilization

Despite the diverse agro-ecological conditions, Malawian farmers in all of these zones do not take advantage of the favorable conditions that allow cultivation of a range of different crops and primarily cultivate maize, leading to low productivity. There is great potential to harness Malawi's agricultural potential through matching the crops grown to the conditions that support them. Malawi's widely diverse agro-ecological conditions could support multiple crops, and as long as a market can be identified, these crops have significant value creation and food security potential.

3.2. *The Latent Potential of Lake Malawi*

3.2.1. Water Resources

In addition to the favorable agro-ecological zones, Malawi possesses bodies of water that cover at least 21% of the country's total land area. The major lakes contributing to this are Lakes Malawi (28,750 km^2), Chilwa (683 km^2), and Malombe (303 km^2), which are shown in Figure 9[27]. Lake Malawi, the third-largest freshwater lake in Africa and the second deepest lake in Africa lies in the Great Rift Valley, which traverses the country from north to south. It is the single most important water resource and plays a vital role in the socio-economic development of the country. The lake is 570 km long, 16 to 80 km wide, and has a total storage of 1 000 km^3. Its average depth is 426 m, while its maximum depth is 700 m. The Shire River flows from the south end of Lake Malawi and joins the Zambezi River 400 km farther south in Mozambique. In addition to the Shire River, an important and dense network of perennial rivers are linked to the lake, including Ruo River in the Southern Region, North and South Rukuru Rivers in the Northern Region and Lilongwe, Linthipe, Bwanje, Bua and Dwangwa Rivers in the Central Region[28].

Figure 9: Malawi Water Bodies

3.2.2. Irrigation Potential

Despite significant water resources, Malawi depends on rain-fed agriculture. This has led to low agricultural production and productivity. The impact of this has been particularly devastating in times of weather shocks and natural disasters such as droughts, dry spells, floods, pests and diseases brought about by climate change. Ideally, the country would be able to harness the potential of Lake Malawi by increasing land area under irrigation. However, only 92,000 ha (representing less than 2% of arable land)

[27] World Atlas Website, accessed 10 October 2012

[28] Water for the People Website, Malawi Programs, accessed 01 October 2012; World Atlas website, accessed 01 October; FAO Aquastat website, accessed 01 October 2012

is currently under irrigation[29]. Nonetheless, arable land accounted for 72% of consumptive demand for water in 2010, followed by domestic demand of about 20%[30].

There is recognition of the significant irrigation potential that is yet untapped and in order to better harness the water resources at the country's disposal, the GoM created the Green Belt Initiative (GBI) with the aim of using the available water resources to increase production, productivity, incomes and food security at both household and national levels for economic growth and development[31]. Further detail of the GBI is given in Section 4 which covers government initiatives to accelerate investment in agriculture.

Key benefits of improved irrigation agriculture for Malawi and investors include, but are not limited to:

- Improved yields through reduced crop loss due to erratic, unreliable or insufficient rainfall;
- Improved yields as irrigation enables the use and increased effectiveness of complimentary inputs such as high yielding seed varieties and fertilizers, in addition to irrigation being a driver of improved yield in itself;
- Increased annual output due to the possibility of multiple-cropping. That is, farmers would be afforded a minimum of two growing seasons a year through irrigation; and,
- Increased area under cultivation as irrigation allows a greater area of land to be used for crops in areas where rain-fed production is impossible or marginal.

Private sector actors are in a position to leverage the country's irrigation potential and are also best placed to provide the capital and expertise to fully realize the latent potential in Malawi's water resources.

3.3. *Land Availability*

Land is an important consideration for investors looking to participate in agricultural production. According to the Food and Agricultural Organization, Malawi has 5.4 mn hectares (ha) of arable land, which represents 45% of the land area.[32] Of this arable land, 1.2 mn ha is under estate agriculture and of the remainder, an estimated 4.0 mn ha is cultivated by SHFs while the balance is available for agricultural use. This represents an opportunity for Malawi to grow its agricultural footprint and increase surplus output to encourage exportation.

SHFs typically cultivate, on average, less than one hectare of land to support a family of six people[33]. The typical SHF land holding is 1.178 ha in the Northern Region, while for the Central and Southern Regions, it is 1.145 ha and 0.732 ha, respectively[34]. Figure 10 shows the area under cultivation by SHFs for a number of crops, and the average cultivated area for each crop.

[29] Green Belt Initiative Strategic Plan; Monitor Analysis

[30] The Water Resources Investment Strategy Project

[31] Green Belt Initiative Strategic Plan

[32] Government of the Republic of Malawi, Malawi National Land Policy, Ministry of Lands, Physical Planning and Surveys

[33] NASFAM website, accessed 06 October 2012

[34] National Statistical Office, National Census of Agriculture and Livestock

Figure 10: Average Number of Smallholder Farmers and Average Area Cultivated by Crop[35]

Crop	Area Under Cultivation by Crop	Average Area Cultivated per Farmer (ha)
Maize	1,696,270	0.5
Groundnuts	295,236	0.2
Cassava	195,828	0.3
Pigeon Pea	190,437	0.2
Soybean	75,186	0.2
Rice	59,098	0.1
Cotton	47,209	0.4
Tea	23,000	2.14
Macadamia	3,200	0.2

The area cultivated by each SHF is fairly small, which limits productivity, especially when coupled with limited SHF access to credit and inputs. Maize is the primary crop grown by SHFs, despite there being other crops that are more suited to the land and growing conditions.

Due to the challenges cited for SHFs, the GoM aims to encourage increased commercial farming and commercialization of SHF output. Land availability is often a challenge in achieving this goal; SHF land holdings are far too small and continuous tracts of land that can support commercial agriculture are often not available or, more often, not accessible.

There are three types of land holdership in Malawi: customary, public and private (which consists of freehold and leasehold land). Land held by estate farmers is typically in the form of freehold or leasehold while customary land is primarily used by SHFs. At present, no legal framework supporting the ownership of customary land is in place in the country, which makes it difficult to transfer land in large tracts or to use land as collateral to access credit for farm inputs. However, the legal framework for land acquisition and ownership is under review by the Cabinet of Malawi and is anticipated to support private sector participation in agricultural investment.[36] The specific changes that will be written into law as part of the land regulation review process include the decentralization of land registry from regional to district level, and the registration of customary land which will allow easier transfer of this land. The majority of arable land that is not under cultivation is held in the form of customary land and the registration of this land will significantly support investment to increase land productivity.

3.4. *Market Potential*

Malawi can access markets at multiple levels, including the local, regional and overseas markets. Consumption in all of these markets is increasing due to economic growth, which represents an opportunity for Malawi and other food producing countries.

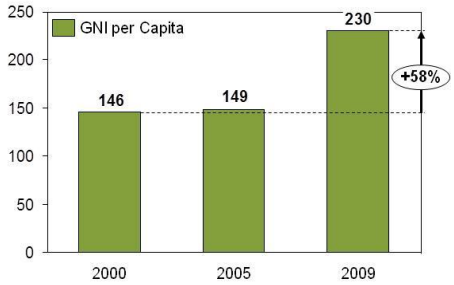
[35] FAOSTAT, Monitor Analysis

[36] Primary Interviews, Malawi, August – October 2012

3.4.1. Local Market

The local market presents potential because it is showing strong growth. The buying power of Malawians has increased in the last decade as illustrated in Figure 11 with Gross National Income per Capita rising from USD 146 to 230 between 2000 and 2009, an increase of 58%.

Figure 11: Gross National Income per Capita (USD)[37]



GDP per capita increased at a compound annual growth rate of 9.9% per annum between 2006 and 2011[38] and is expected to continue growing at 5% per annum going forward. Coupled with a population which is predicted to grow at 2.9% per annum to 40 million by 2040[39] from the current 15.4 million, the buying power and demand for food will increase in Malawi, creating more local market potential and increasing the opportunity to serve the local market profitably[40].

The increased rate of urbanization in Malawi has also contributed to increased participation in the formal economy and growing demand for goods and services. Between 1985 and 2010, the percentage of the population living in urban areas increased from 10% to 20%[41], presenting an opportunity for private sector firms to satisfy growing demand.

3.4.2. Regional Market

Malawi is a "land-linked" country and shares borders with Mozambique, Zambia and Tanzania. Malawi's neighbors are also experiencing encouraging levels of economic growth. As a member of the Southern African Development Community (SADC) and a participant in bilateral agreements with South Africa and Mozambique, Malawi is in a good position to trade with these countries and benefit from the economic growth that they are enjoying as illustrated by the predominantly strong economic indicators shown for SADC countries in Figure 12.

[37] United Nations Data, World Statistical Pocketbook

[38] International Monetary Fund, World Economic Outlook Database, April 2012

[39] Malawi Voice, Malawi Population To Reach 40 Million By 2040, 25 February 2012

[40] International Monetary Fund, World Economic Outlook Database, April 2012

[41] International Monetary Fund, World Economic Outlook Database, April 2012

Figure 12: Economic Indicators for SADC Countries[42]

	GDP[3] (USD bn)	GDP per Capita (USD)	GDP CAGR ('06– '11)	GDP CAGR ('11– '17E)
Malawi	5.7	351	12.7%	4.3%
Zimbabwe	9.3	741	11.1%	8.2%
Namibia	12.5	5,828	9.3%	5.6%
Mozambique	12.8	583	12.2%	11.3%
Botswana	17.6	9,481	9.2%	3.6%
Zambia	19.2	1,414	12.4%	9.8%
Tanzania	23.3	553	10.2%	8.9%
South Africa	408.1	8,066	9.3%	5.1%

Trade and the enhancement of cross-border investment are considered major areas of co-operation among the member states of SADC[43]. Trade benefits of being part of SADC include reduced tariffs and duties, harmonization of trade laws such as sanitary and phytosanitary measures, encouragement of cross-border investment, and preferential trade partner treatment, to name a few. Although Malawi's overall export value is still the smallest in comparison to other SADC countries (Figure 13), its exports to SADC countries grew at a compound annual growth rate of 34% between 2003 and 2009, (Figure 14).

Figure 13: Total Value of Exports for SADC Countries, 2010[44]

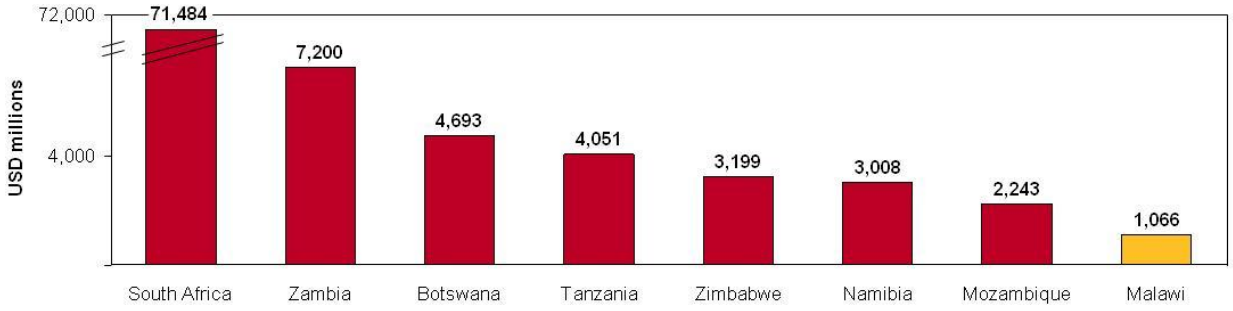
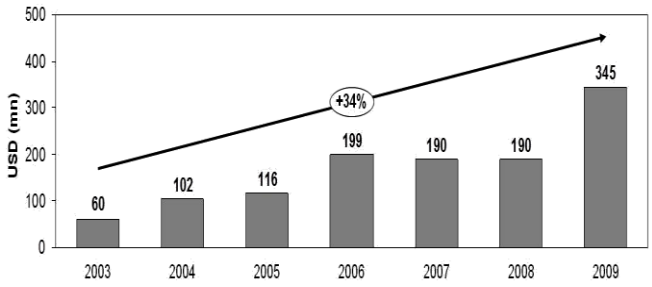


Figure 14: Malawi Exports to SADC Countries (2003 - 2009)



[42] International Monetary Fund, World Economic Outlook Database, April 2012

[43] Southern African Development Community, Protocol on Trade, Page 161, Accessed September 28th 2012

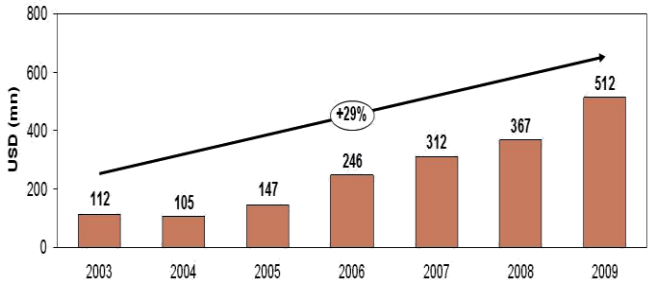
[44] International Trade Center (Note that this data includes all exports, and not just agricultural exports)

SADC countries represent a growing food market for Malawi. For example, the food consumption rates in South Africa and Mozambique are projected to grow at compound annual growth rates of 10.3% and 13.6% respectively between 2011 and 2016[45]. As African governments continue to increasingly value the benefits of the regional approach to economic growth, Malawi will continue to enjoy the benefits of being part of the regional community.

3.4.3. Overseas Market

For overseas markets, Malawi already has established trade relationships with some European Union (e.g., Belgium, Germany, Netherlands, and the United Kingdom) and Asian (e.g., India, and China) countries. For example, Malawian exports to the European Union grew at a compound annual growth rate of 29% between 2003 and 2009, as shown in Figure 15. As another example, India purchased 90% of Malawi's pigeon pea exports in 2010, accounting for over 135,000 MT, with increasing volumes expected for the future due to growing Indian demand[46].

Figure 15: Malawi Exports to the European Union (2003 - 2009)[47]



All in all, Malawi has established trade relationships with regional and overseas markets and is in a position to direct production surplus into these markets.

3.5. *Labor Participation in Agriculture*

Malawi is historically a nation of farmers. Its agricultural sector employs around 85% of the labor force, with the main participants in the sector being smallholder farmers (SHFs)[48]. There are about 3.5 million SHFs currently active in the country[49]. In 2011, 80% of Malawi's farming output was generated by SHFs[50].

One distinguishing factor of Malawi's SHFs is their desire to commercialize. While SHFs typically grow maize as their primary food crop, they are increasingly beginning to grow both food and cash crops for sale. Malawian SHFs respond to market cues and grow crops that they believe can earn them an income based on the previous season's performance and government incentives. The agrarian culture also cuts

[45] Business Monitor International, Food And Drink Reports, 2012

[46] Accounts for both formal and informal trade, Primary Expert Interview, 2012

[47] Ministry of Economic Development and Planning, Annual Economic Report, 2011

[48] United Nations, Malawi, "Discover Malawi"

[49] MoAFS Department of Agricultural Extension Services

[50] Malawi Export Promotion Council, The Products Handbook

across all working ages in Malawi, where 85% of the labour force is engaged in agriculture, suggesting that agriculture in Malawi is not a dying trade and is central to both subsistence and income generation.

Around 80% of Malawi's population depends on smallholder farming for their livelihood, and most Malawian smallholder farmers cultivate, on average, less than one hectare of land to support a family of six people.[51] Figure 16 shows SHF participation in select crops and land allocation to those crops.

Figure 16: Average Number of Smallholder Farmers and Average Area Cultivated by Crop[52]

Crop	Number of Smallholder Farmers (SHFs)[53]	Number of SHFs as Percentage of Total[54]	Average Area per Farmer (ha)
Maize	3,392,540	96.93%	0.5
Groundnuts	1,476,180	42.18%	0.2
Pigeon Pea	952,185	27.21%	0.2
Cassava	652,760	18.65%	0.3
Rice	590,980	16.89%	0.1
Soybean	375,930	10.74%	0.2
Cotton	118,023	3.37%	0.4
Macadamia	16,000	0.46%	0.2
Tea	10,500	0.30%	2.14

Despite being the majority of participants in the agriculture sector, SHFs in Malawi face some challenges that limit their ability to meet their full potential. Small land holding sizes and high focus on maize cultivation for direct consumption make it difficult for SHFs to increase the share of commercially viable crops to grow their income and move on to sustainable farming. In addition, SHFs face additional challenges such as limited market information, insufficient access to credit, limited use of improved inputs and technologies and often unfair farm gate prices. This leads to lower levels of productivity than estate farmers.

To overcome the challenges mentioned above, farmers' organizations, or cooperatives, have been formed in Malawi to mitigate the challenges faced by SHFs. The majority of cooperatives help farmers by training them on good agricultural practices, increasing access to inputs and credit, negotiating with buyers on behalf of farmers and aggregating output. Two such organizations that aggregate SHFs and provide services to them in Malawi are the National Smallholder Farmers Association of Malawi (NASFAM) and the Farmers Union of Malawi (FUM).

NASFAM currently has a membership of approximately 100,000 farmers, with field based operations focused around 13 offices across the country. NASFAM is made up of independent commercial agribusiness Action Groups which are in turn made up of clubs of between 10 and 20 farmers, working together in Marketing Centre Committees. These groups then form General Assembly Associations of 300-5,000 members, each of which elects a National Assembly representative to represent them at the national level of NASFAM[55]. The organizational structure of NASFAM is depicted in Figure 17.

[51] NASFAM website, accessed 06 October 2012

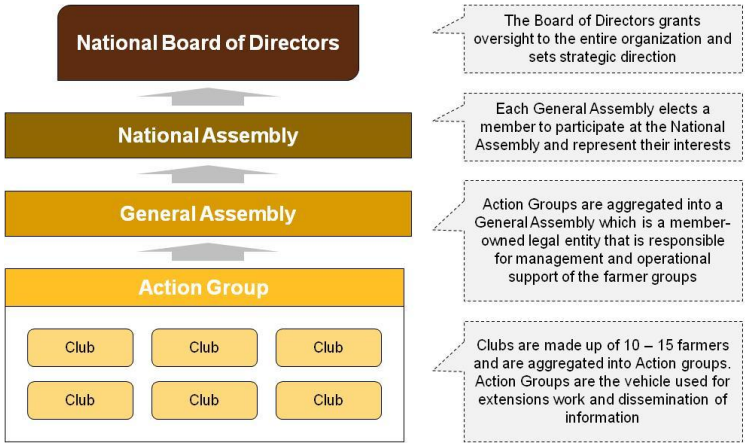
[52] FAOSTAT, MoAFS Department of Agricultural Extension Services, Monitor Analysis

[53] Some double counting may exist as farmers often farm more than one crop

[54] Total number of stallholder farmers estimated at 3.5 million

[55] NASFAM website, accessed 6 October 2012

Figure 17: NASFAM Organizational Structure[56]



FUM is an umbrella body of farmer organizations which aims to encourage farmer participation in the creation and implementation of policies, strategies and programs that aim to improve the livelihoods of SHFs in the country. FUM has 18 member associations in the Central region, 11 in the Southern region and 7 in the Northern region[57].

Farmers unions and cooperatives in Malawi have made some progress in developing a business mindset in SHFs. They serve an invaluable role in narrowing the gap between private sector needs and SHF capabilities and can be leveraged by private sector actors in Malawi's agriculture value chains. While there is still room for improvement, they have successfully managed to organize the business-oriented SHFs and improve their access to markets by linking them to private sector firms that need a continuous, secure, and high-quality supply of agricultural products.

3.6. *Major Crop Statistics*

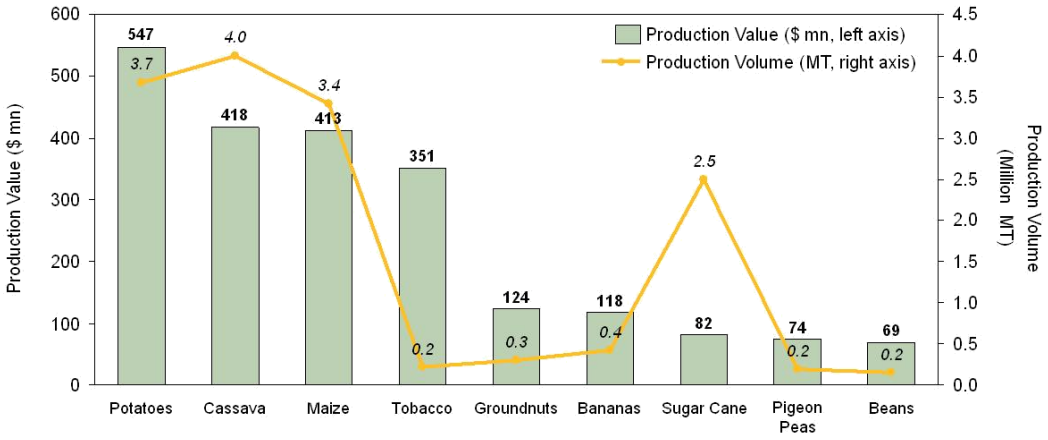
3.6.1. Production

Potatoes, cassava, maize and tobacco account for the largest production value in Malawi. In terms of volumes, cassava, potatoes, maize and sugarcane are the highest, respectively, as shown in Figure 18.

[56] NASFAM website, accessed 6 October 2012

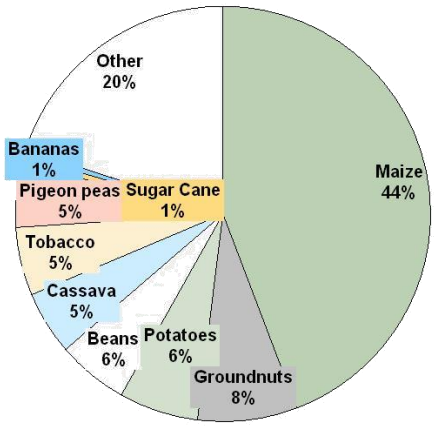
[57] FUM website, accessed 6 October 2012

Figure 18: Crop Production Volume and Value, 2010[58]



Maize is a food security crop in Malawi and is grown predominantly by SHFs. Maize is grown on an estimated 44% of the cultivated land area, as shown in Figure 19.

Figure 19: Area Harvested by Crop, 2010[59]



Due to the high prevalence of SHFs, low use of improved inputs and dependence on rainfall, maize yields are particularly poor resulting in low production volumes despite the large area harvested. The yield per hectare of maize in Malawi is far lower than in other countries, at an average of 2.18 tons/ha compared to 2.55 tons/ha in Zambia and 4.16 tons/ha in South Africa[60]. The example of sugarcane shows, however, that Malawi's favorable agro-climatic conditions combined with its huge potential for irrigation can lead to excellent productivity, with sugarcane yields that are more than double the regional average[61].

[58] FAOSTAT, 2010

[59] FAOSTAT, 2010

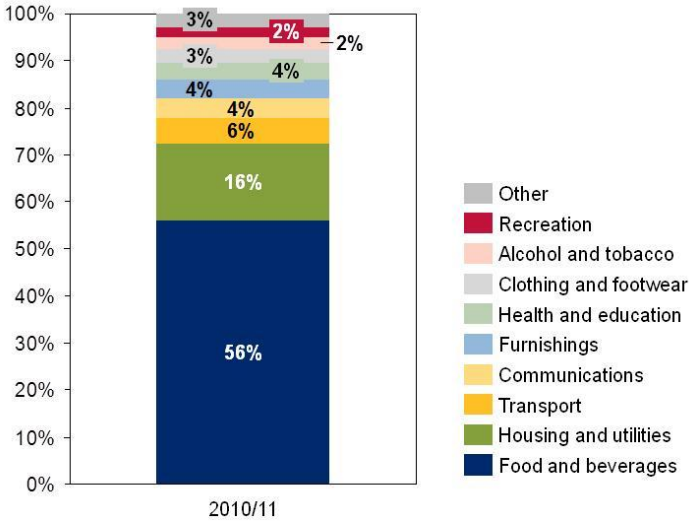
[60] World Bank, World Data bank, 2010.

[61] FAOSTAT, 2010, Monitor Analysis

3.6.2. Consumption

The consumption patterns of Malawians are primarily determined by income, access, geography and food prices. Cereals are the basis of the diet and the majority of caloric intake, providing almost 80% of daily caloric intake per capita as follows: maize (63.4%), cassava (8.5%), wheat (3.2%), rice (2.9%) and sorghum (0.7%)[62]. The principal staple food is maize, which is consumed as a thick porridge called *nsima*. Potatoes and sugar are the next most consumed foods. A large proportion of Malawians do not consume the required daily calories and nutrients recommended by the Food and Agriculture Organization (FAO), with over one third of the population undernourished. A 2009 study by the Food, Agriculture and National Resources Policy Analysis Network (FANRPAN) and International Food Policy Research Institute (IFPRI) showed that 34% of Malawians are consuming less than the required calories, even though most of their income (56%) is already spent on food, as depicted in Figure 20.

Figure 20: Malawi Household Consumption, 2010/11[63]



Malawians have a highly elastic demand for food and spend disproportionate amounts of increases in income on food. While the share of incomes spent on food is only 56%, their elasticity of demand for food is 87%, which means that a 1 MWK increase in income leads to a 0.87 MWK increase in food consumption, instead of the expected 0.56 MWK[64]. Overall consumption per capita is increasing, having grown from MWK 133 per capita per day in 2005 to MWK 150 in 2011[65].

With the recent trends in increasing Gross National Income per Capita as earlier shown in Figure 11, combined with the elastic demand for food, investors can be assured of a high increase in food consumption and market potential as the majority of additional income is currently spent on food. This increase in consumption in the local market can be illustrated by trends in consumption of select major crops in Malawi, as shown in Figure 21. For example, consumption of soybeans increased by 7.2% per annum between 2006 and 2010 and consumption of groundnuts increased by over 10% per annum over that same period.

[62] Food and Agriculture Organization, Statistical Yearbook for Malawi, 2010

[63] Integrated Household Survey, 2010/2011

[64] Food and Agriculture Organization, Statistical Yearbook for Malawi, 2010

[65] Integrated Household Survey, 2010/2011

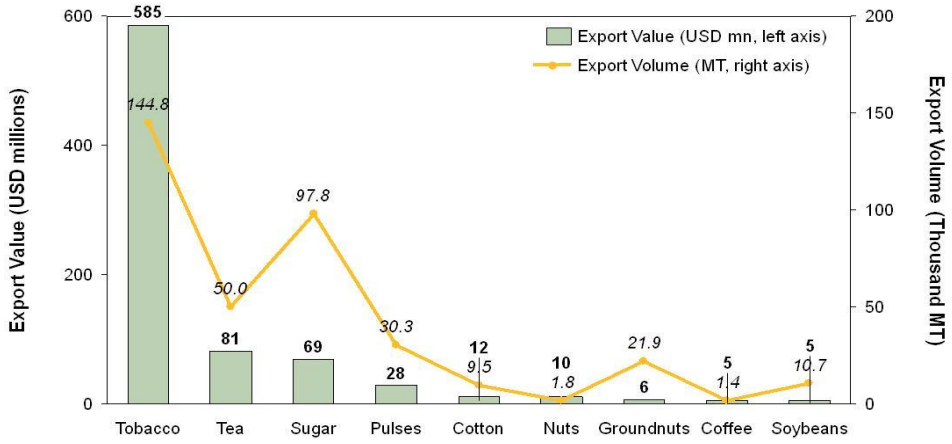
Figure 21: Malawi Consumption and Consumption Growth for Select Food Crops[66]

Crops	Consumption (MT)		Consumption Growth
	2006	2010	CAGR (2006-2010)
Cassava	2,832,140	4,000,990	9.02%
Maize	2,666,138	3,426,964	6.48%
Sugarcane	2,381,693	2,402,259	0.22%
Groundnuts	202,042	297,377	10.15%
Pigeon Peas	126,480	172,794	8.11%
Rice	95,036	109,576	3.62%
Soybeans	52,201	64,553	5.45%

3.6.3. Exports

Malawi's total export value in 2010 amounted to USD 1.07 billion, with the majority being generated by tobacco, the main export product and foreign currency earner. As shown in Figure 22, tobacco had an export value of USD 585 million, representing 55% of the foreign exchange that is earned by the country. Only taking into account exports within the agriculture sector, the next largest exports are tea and sugar, with values of USD 81 million and USD 69 million, respectively, together accounting for another 14% of foreign currency earnings. With the main three crops making up nearly 70% of overall export revenues, there is clear dependence on agriculture for foreign exchange generation. [67]

Figure 22: Agricultural Export Volume and Value, 2010[68]



Looking at the major cash crops, the top three destinations for tobacco in terms of value are Belgium (20%), Egypt (17%), and Germany (10%). For tea, 70% is exported to the main three markets, namely South Africa (33%), the UK (22%), and Kenya (14%). Lastly, for sugarcane the key export market is are Zimbabwe (40%), the UK (15%), and Portugal (12%). Food crops such as pulses, nuts, groundnuts, and soybeans are primarily exported to other countries in Eastern and Southern Africa such as South Africa, Tanzania, Zimbabwe, Kenya, and Zambia. Coffee is primarily exported to Europe (Germany, the

[66] FAOSTAT

[67] International Trade Center

[68] International Trade Center

Netherlands, and the UK) and South Africa, and the key export market for pigeon peas is India (accounting for about 90%[69]), followed by the UK.[70]

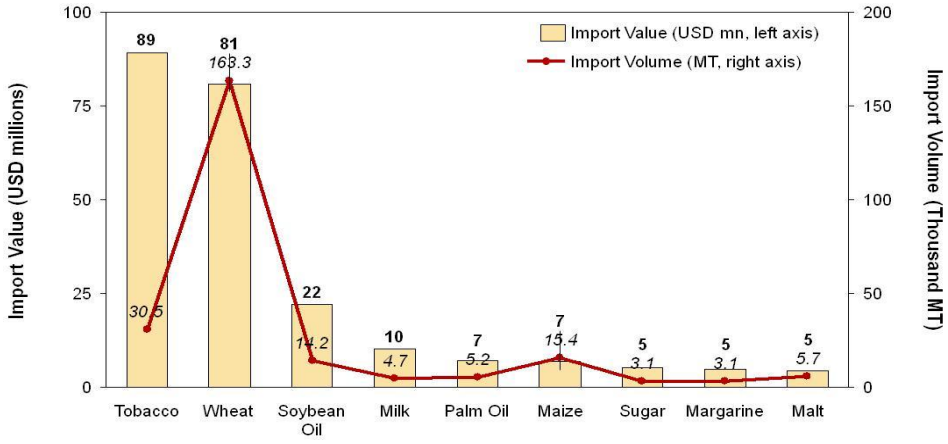
Malawi has numerous existing trading partners within the region and globally, which present an opportunity for the private sector. However, there is potential to realize yet more value from agricultural exports by increasing value addition. When products are exported as raw commodities, this limits the value created and captured locally. Opportunities exist for private sector actors to invest in processing capacity for crops that are easily available locally and currently undergo limited processing, such as groundnuts and soybeans.

Recognizing that overdependence on tobacco leaves the country's economy vulnerable to external shocks, the government is implementing strategies that encourage diversification away from tobacco through subsidies, incentives and co-investment in these crops which can also benefit private investors. Some examples of crops being supported by the GoM include oilseeds, sugarcane, maize, and cotton, through government programs and strategies such as the National Export Strategy, the Agriculture Sector Wide Approach and the Farm Input Subsidy Programme.

3.6.4. Imports

Malawi's total import value in 2010 amounted to USD 2.17 billion, compared to USD 1.07 billion in exports, resulting in an overall trade deficit and a shortage of foreign exchange. While the majority of exports are driven by the agriculture sector, only about 15% of imports are agriculture related. Due to the low productivity of the local industry and the low level of diversification, Malawi is a net importer of crops which it has significant potential to produce itself. The most significant imports include tobacco (USD 89 mn), wheat (USD 81 mn) and soybean oil (USD 33 mn), as depicted in Figure 23.

Figure 23: Agricultural Import Volume and Value, 2010[71]



[69] Accounts for both formal and informal trade, data obtained from primary expert interviews, October 2012

[70] International Trade Center

[71] International Trade Center

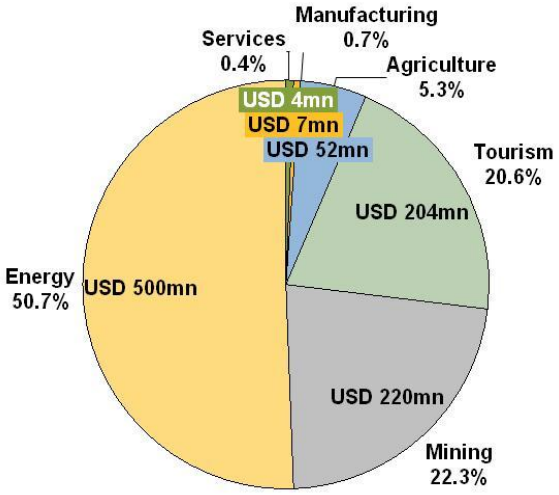
While over 70% of the tobacco is coming from Zambia to meet demand that Malawi is unable to produce itself, the top three import countries for wheat are Australia (23%), Switzerland (19%), and Russia (11%). Given the long distance, high transportation costs, and time delay, combined with the ability to produce wheat locally in the highlands, this crop offers an excellent opportunity for import substitution. Another commodity that offers significant potential for import substitution is soybean oil, which is imported primarily from Argentina. The fact that Malawi is exporting raw soybeans highlights the potential to invest in agro-processing and produce soybean oil locally. Despite high production volumes for maize and sugarcane, Malawi is still unable to meet local demand which indicates the need to further increase production volumes locally.[72]

There is an opportunity for private sector actors to identify demand that is not being met, or that could be filled at a lower cost by investing in the local economy. Significant support from the GoM is in place, through incentives that drive increased manufacturing and food processing, such as tax breaks on equipment importation, to allow for increased value addition for import substitution.

3.7. *Recent Investment Activity*

Despite challenges in the macro-environment, there has been new committed investment in Malawi's economy. Figure 24 shows the distribution of new investment across sectors in 2011.

Figure 24: New Committed Investment in Malawi, by Sector, 2011[73]



The largest single amount was invested in the energy sector in a USD 500 million thermal energy project backed by Chinese state owned company, Gezhouba, which is expected to increase the electricity generation capacity of Malawi fourfold, adding 1,000 megawatts to the present 280 megawatts. Malawi's demand for electricity is estimated at 300 megawatts, although this only accounts for the demand from the 9% of the population that is currently connected to the grid. This project, to be completed by 2015, will, in conjunction with the Millennium Challenge Corporation project to increase

[72] International Trade Center

[73] Malawi Investment and Trade Center

transmission capacity, effectively make Malawi energy independent and increase industrial productivity and potential for agro-processing, thus directly benefitting the agriculture sector.[74]

Interest in Malawi's mining and tourism sectors has also seen significant growth with investment being committed to develop cement quarrying and hotel construction, respectively. Investment in tourism also improves the attractiveness of investments in agriculture, by creating a market and demand pull. Despite being the mainstay of the economy, Malawi has not seen sufficient investment in agriculture and agriculture related manufacturing in the recent past. 2011 data from the Malawi Investment and Trade Center suggests that only 5% of committed investment capital was directed into agriculture. Even though the investments made in agriculture in 2011 were predominantly in value addition, there is still significant potential for further value addition within Malawi's borders to reduce imports and to increase exports to regional and global markets.

[74] Nyasa Times, "China invests $500m for electricity in Malawi," 26 September 2012

4. Government Initiatives to Accelerate Investments in Agriculture

The Government of Malawi is striving for private sector-led growth and has been working to create an environment that facilitates this on a number of levels. Firstly, it has articulated strategies to govern its interventions and coordinate donor participation around priority focus areas. This has been achieved through strategies such as the Agriculture Sector Wide Approach (ASWAp) and the National Export Strategy (NES) which both identify focus areas, and support services that the government is putting in place to drive growth in these clusters. Secondly, there has been significant policy reform spearheaded by the Office of the President and Cabinet (OPC) in 2012, which has been aimed at directly impacting the environment for doing business. More than ever, the political will to enact changes is at a peak in the country. Thirdly, there are significant investment incentives that are in place that show the GoM's willingness to co-invest with the private sector in order to foster growth. Lastly, the GoM is driving and supporting projects that aim to remove barriers in Malawi's business environment by improving critical infrastructure in areas such as energy, transportation and irrigation.

The following sections illustrate how these four sets of interventions have unfolded in Malawi and the opportunities that they present for the private sector to participate in ways that are mutually beneficial to the private sector, the government and the economy at large.

4.1. *Sector Strategies to Harmonize Interventions*

4.1.1. Agriculture Sector Wide Approach[75]

The Agricultural Sector Wide Approach (ASWAp) is the medium-term strategy for the agricultural sector in Malawi. It was created to realize the agricultural growth and poverty reduction goals of the Malawi Growth and Development Strategy I & II (MGDS I & II) as well as the Comprehensive African Agricultural Development Programme (CAADP) growth requirements. The ASWAp is a comprehensive program that formalizes the process for improved donor coordination to harmonize public and development partner investment and align funding arrangements between the government and donors in the agricultural sector. The ASWAp has three main focus areas:

- **Food Security and Risk Management:** This pillar aims to increase maize self sufficiency, increase diversification of crops produced for both dietary and risk management purposes, and includes stabilization mechanisms at a national level such as improving the management of the national and regional silos and the Strategic Grain Reserve (SGR) to reduce grain storage losses and increase storage capacity at the national level.
- **Commercial Agriculture, Agro-processing and Market Development:** This pillar aims to increase agro-processing to increase value addition and diversification of exports. The ultimate goal is to include different high value commodities for increased revenue and income through private sector participation and public-private partnership. It also aims to increase SHF participation in agro-processing through contract farming, out-grower schemes and cooperatives.

[75] Malawi Agricultural Sector Wide Approach

- **Sustainable Agricultural Land and Water Management**: The main goal is to foster sustainable agricultural land management, agricultural water management and irrigation development to utilize Malawi's largely untapped water resources and their inherent agricultural potential, in a sustainable manner.

ASWAp Implementation

The ASWAp is one of a number of Sector Wide Approaches (SWAps) that the government has initiated, and exemplifies the change in approach from multiple individual projects to a unified sector approach that attempts to coordinate efforts around priority areas. To date, almost MKW 2 billion (USD 7 million) has been committed to the implementation of the ASWAp, through donor partners such as the World Bank, and government funding. Examples of other SWAps in implementation include the Education Sector Wide Approach and the Healthcare Sector Wide Approach.

The ASWAp is implemented by a Secretariat that liaises with Technical Working Groups comprising members from both the public and private sectors, leveraging the different skill sets and perspectives to develop robust solutions. Ultimately the implementation of underlying projects is conducted by implementing partners and district level government. Though it is suggested that more visibility is necessary across implementing arms of the program, the ASWAp is largely touted as being truly sector wide and driving development within the Agricultural Sector in a more coordinated manner.

4.1.2. National Export Strategy[76]

The National Export Strategy (NES) aims to be a roadmap for how Malawi can build its productive base in a manner that will drive export growth on a sufficient scale to reduce the country's trade deficit. This strategy provides a prioritized road map for developing Malawi's productive base to allow for both export competitiveness and economic empowerment. The strategy is based on three key considerations: prioritizing product clusters with high spillover opportunities into other value chains, balancing export competitiveness with economic empowerment, and supporting economic institutions and fostering stakeholder ownership.

The prioritized clusters within the NES are oilseed products, sugarcane products and manufactured products, all of which are, to a large extent, agriculture related. Focus value chains in the oilseed cluster include cotton, groundnuts, soybeans, and sunflower. In the short-term, the focus is to increase exports of raw and semi-processed commodities such as cotton seed or groundnuts. In the long-term, the goal is to move into value addition and to export processed products such as cooking oil, lubricants, paints, animal feed, and snacks, amongst others. Within the sugarcane products cluster, the goal is to drive exports spanning from branded sugar to other value-added products like sugar confectionary, spirits, and cosmetics. Lastly, the manufactured product cluster includes two agriculture-related sub-areas, namely "Beverages" and "Agro-processing", both of which include inputs from locally grown crops such as maize, legumes, rice, and cassava.

Development of the NES was led by Malawi's Ministry of Industry and Trade, with support from other Ministries such as the Ministry of Agriculture and Food Security, the Ministry of Finance and the Ministry of Economic Planning and Development. The NES was developed over a year-long period, through a

[76] Malawi Ministry of Industry and Trade National Export Strategy

consultative process that included the public and private sector in a Steering Committee and a number of Technical Working Groups around the focus areas. Full implementation of the NES will see government and donor financing rallied around the focus clusters, which will create an opportunity for the private sector to participate in value chains that have some of the grassroots development costs shouldered by the government in their attempts to balance economic empowerment with economic competitiveness.

4.1.3. Presidential Initiative on Poverty and Hunger Reduction (PIPaH)

The Office of the President and Cabinet (OPC) is also interested in driving agricultural strategy reform from the top, and in exemplifying implementation. One initiative that has specifically been formed to address agricultural reform is the Presidential Initiative for Poverty and Hunger Reduction (PIPaH). PIPaH was formed as a task-force, complementary to the ASWAp, to drive improvements to the agricultural sector with the primary goals of reducing poverty and hunger in Malawi through agriculture focused interventions. Key focus areas of PIPaH include enhancing sustainable food security through improving productivity, empowerment through farm mechanization, the promotion of special crops for exports, and the promotion of irrigation farming.

4.2. *Policy Reforms to Foster an Improved Business Enabling Environment*

President Joyce Banda's administration has so far continued to stress the need to foster private sector-led growth. To promote industry, investments, trade and enterprise, the GoM has enacted the following legislation in 2012: The Business Registration Bill, Investment and Export Promotion Bill, Malawi Bureau of Standards Bill and the Public Private Partnership Bill. These bills are all expected to directly improve the enabling environment in the country. For example, the implementation of the Business Registration Bill has involved the automation of business registration and digitization of business records, which will shorten the amount of time required to register a company from the current 39 days[77] to less than 21 days. Also, a large part of the implementation of the Investment and Export Promotion Bill will involve the implementation of the Malawi Investment and Trade Center (MITC) as the one-stop shop for investment startup which will allow investors to have a single interface for the entire process, increasing access to information and shortening the process significantly. The strategic planning process to enable MITC to fill its role is in progress and will be completed during 2012.

> "My Government is committed to improving the business environment and ensuring that Malawi is one of the best investment destinations in the world."
> - President Joyce Banda, at the National Dialogue on the Economy, 2012

Additional bills such as the Secure Transactions Bill, Personal Property Security Bill, Business Licensing Bill, Insolvency Bill and amendment to the Company Law are currently in review and are expected to be passed by Cabinet in the near future. The recent successful passing of new legislation has been carried out in a very short period of time, after some Bills had been outstanding for many years prior. This agility

[77] World Bank, Doing Business Survey, Doing Business in a More Transparent World, Malawi, 2012

is a testament to the new administration's commitment to making the necessary reforms that will improve the environment for doing business.

The country's governance has experienced a shift towards liberalization of the economy ushered in by President Banda's administration. One of the first steps the president took was to liberalize the currency and allow the exchange rate to be largely market-driven. The devaluation of the Kwacha in May of 2012 saw the exchange rate between the Kwacha and the United States Dollar decline by over 40% from MKW[78] 168 to MKW 247 per USD 1[79]. Even though the devaluation saw the assets of many companies devalued in turn, it had some key benefits for the economy. Firstly, it increased the ability of the private sector to access foreign exchange, which was previously restricted during the fixed exchange rate period. It also signaled to the international community that Malawi was prepared to make tough long term decisions and become more competitive in the global market by having its exchange rate reflect the true value of its currency[80].

Furthermore, the GoM is applying a much more consultative approach to policy reform that incorporates expert perspectives. The Presidential Advisory Committee on the Economy (PACE) was formed by the GoM in collaboration with the Brenthurst Foundation to drive economic reform in an informed and sustainable way. Its role is to assist the presidency in tackling the various economic challenges that need to be addressed for Malawi to develop as a nation and to increase its attractiveness as an investment destination. Through the Public-Private Dialogue Forum that sits within the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), the perspectives of the private sector are also captured and incorporated into policy evolution.

4.3. *Investment Incentives to Drive Private Sector Participation*[81]

The Government of Malawi has demonstrated willingness to co-invest with participants within its economy and demonstrates this by offering a range of incentives.

- **General Incentives:** The goal of general incentives is to encourage overall participation in Malawi's economy by easing the costs of business startup. Some examples include 100% investment allowance on qualifying expenditure for new building and machinery, loss carry forward of up to seven years and 50% allowance for qualifying training costs. Also, the GoM encourages participation in value addition and manufacturing. Some examples of related incentives include allowance for manufacturing companies to deduct all operating expenses incurred up to 25 months prior to the start of operations and additional investment allowances for companies investing in industrial sites such as Kanengo, Chirimba and Luwinga. Another goal of the GoM is to encourage participation of international firms in Malawi's economy. To that effect, they have put in place free repatriation of dividends, profits, and royalties.

- **Tax Incentives:** Tax incentives include exemption from value-added tax for goods such as animal products, petroleum products, certain insecticides and fungicides, agricultural and horticultural appliances, water pumps, and tractors, etc. In order to promote the production of biodiesel in

[78] Malawian Kwacha

[79] Oanda Historical Exchange Rates, Accessed September 13, 2012

[80] Nyasa News, "Malawi Devalue Kwacha Currency", Wanga Gwede, May 7, 2012

[81] Malawi (former) Investment Promotion Agency Website, Accessed 6th October 2012

Malawi, government will be providing a special taxation package for the biofuels industry for companies such as those processing jatropha into biodiesel which can be used as motor vehicle fuel.

- **Incentives for Industry Raw Materials:** Under the Industrial Rebate Scheme, whose aim is to increase value addition, there are allowances given to qualifying firms permitting them to only pay value-added tax and not pay import duties on raw materials. In order to qualify for this exemption, companies must demonstrate value addition by providing the Malawi Revenue Authority with data on pre- and post-processing value of their products.

- **Sector Specific Incentives:** Certain sectors that have been identified as key to Malawi's economy also enjoy various exemptions and allowances. For the hospitality sector, there are exemptions on import duties, value-added tax and excise tax on materials and equipment except for building materials. For the dairy farming industry, the same exemptions apply for specialized machinery, equipment and other related goods. Other sectors within which similar allowances are offered are electricity, water supply, telecommunications, mining and fisheries.

- **Export Incentives:** For businesses established in Export Processing Zones, areas approved by the Minister of Industry and Trade for the purpose of manufacturing export products with the objective of promoting economic growth by attracting foreign investments, certain incentives apply. These include tax incentives such as zero corporate tax rates; no withholding tax on dividends; no duty on capital equipment, machinery and raw materials; no excise tax on purchases of raw materials and packaging materials made in Malawi; and no value added tax. Exporters also enjoy privileges such as tax allowances on transport and training cost, as well as allowances on losses arising from trading operations in Malawi.

Malawi offers competitive incentives to companies that operate in key sectors that are considered crucial for growth. This signals to the private sector that the GoM is willing to co-invest with companies by foregoing tax revenues in order to lower the costs of doing business in Malawi.

4.4. *Support of and Co-investment in Turnkey Projects to Develop Necessary Infrastructure*

The Government of Malawi has also been supporting and co-investing in much needed infrastructure development projects that will help to increase productivity and improve access to markets.

Some of these projects are:

I. ***Increasing agricultural productivity by developing irrigation through the Green Belt Initiative (GBI)***

The GBI is part of the implementation arm of the sustainable agricultural land and water management pillar of the ASWAp. The goal is to contribute to the attainment of sustainable economic growth and development by using abundant water resources to improve land utilization efficiency and increase the area under irrigation.

The current area under irrigation in Malawi is 92,000 ha, less than 2% of the total area under cultivation. The GBI aims to increase this area to 200,000 ha by 2016 and ultimately to 1 million ha. The key program activities include identifying appropriate sites, developing irrigation infrastructure or rehabilitating existing irrigation schemes, and engaging the private sector in harnessing the

abundant fresh water resources (i.e., country lakes, perennial rivers, lagoons) to expand the area under irrigation. In addition the GBI will complement the water from the available water bodies through rainwater harvesting strategies, with the ultimate long-term goal of seeing irrigation infrastructure in place on all irrigable land within a 20km distance from the shores of Lake Malawi as well as in the Lower Shire Valley. The intended outcomes from this program are to increase the production and productivity of crops, livestock and fisheries through irrigation intensification and bring Malawi closer to being food independent and a net exporter of products. Reducing the dependence on rain-fed agriculture will reduce uncertainty in food security and hedge against the effects of climate change on food security and nutrition[82].

The GBI is an important initiative for Malawi because the country has water supplies that could support a very vibrant agriculture sector, but that are largely underutilized. As part of the implementation of the GBI, a secretariat was created to oversee the implementation process and has since initiated four pilot projects. In the pilot projects, the GoM is acquiring land that is suitable for a particular crop, such as rice or sugarcane, and investing in developing irrigation infrastructure and training SHFs to participate in the cultivation of the crop. The GoM then invites interested private sector actors to bid for the opportunity to participate in a public private partnership that will be of mutual benefit. An example of one of these projects is in Salima, where the government has purchased 6,000 ha of land and is looking for an investor to develop 4,000 ha of this land into a sugar plantation. This should ease the burden of acquiring land that investors often face. Through the GBI, the government is not only unlocking the potential for irrigation farming in Malawi, but is also demonstrating successes that increase private sector confidence in the sector[83].

II. ***Increasing stability of power transmission through implementing the Millennium Challenge Corporation's (MCC) Power Compact***

This project is an investment of USD350.7 million through the Millennium Challenge Corporation whose goal is to revitalize Malawi's power sector and improve the availability, reliability and quality of power supply infrastructure. Program activities will include preserving and stabilizing existing generation capacity, improving the capacity and efficiency of the transmission and distribution network, and increasing efficiency of hydropower generation. The rationale for the focus on transmission rather than energy generation is twofold: Firstly, the current grid cannot efficiently move the power that is generated, and, secondly, a USD 500 million investment by the Chinese company Gezhouba is already expected to increase generation capacity by 400%[84].

MCC will provide support for the GoM's policy and sector reforms and build capacity in critical sector institutions (e.g., Electricity Supply Corporation of Malawi (ESCOM), and the Ministry of Natural Resources, Energy and the Environment). Malawi's qualification for MCC intervention instils investor confidence that the country is well on its way to fostering good governance standards, as this is part of the evaluation and approval process employed by MCC.[85]

[82] Greenbelt Initiative Strategic Plan

[83] Primary Interviews, Lilongwe, August – October 2012

[84] Nyasa Times, "China invests $500m for electricity in Malawi," 26 September 2012

[85] Millennium Challenge Corporation, Malawi Compact

III. ***Improving overseas market access through supporting the Vale Nacala Railway Project***

Figure 25: Illustrative Nacala Railway Route

This project is driven by the need to rehabilitate the Nacala railway line, linking Tete to the coast of Mozambique through Malawi, as illustrated in Figure 25, to fully capitalize on the coal mining potential of the Moatize region in Tete. Malawi stands to benefit from this project as it will increase Malawi's access to overseas markets and the country has, therefore, entered into a Memorandum of Agreement with Vale, along with Mozambique, to support the rehabilitation of the railway line. Vale is a Brazilian company that is investing in the Moatize coal fields in Tete and has interest in ensuring that the coal has a direct route to the sea. In December 2011, the GoM granted Vale a concession for the railway in exchange for Vale to build, own, and operate the extension through Malawi in a way that brings benefits to Malawi. For the remainder of the railway line which is built on Mozambican territory, the Mozambican government has approved the lease to the newly formed company, Northern Integrated Logistical Corridor (CLIN), of which Vale owns 80% with the other 20% being owned by the Mozambican publicly owned railway company, Caminhos de Ferro de Mocambique (CFM). The railway is expected to move around 40 million tonnes a year, of which 30 million will be allocated to transportation of coal, with the remainder being used to transport people and other commodities[86]. A key outcome of this project, in which construction will start before the end of 2012 and is expected to last three years, is that it will increase overseas market access for both Malawi and Mozambique due to a direct link to the natural deep water port at Nacala (one of only two along the east coast of Africa)[87].

[86] Mozambique Information Agency and (AIM) and Confederation of Economic Associations of Mozambique (CTA) Newsletter, 2012

[87] Malawi Railway Corridor Agreement between the Republic of Malawi and Vale Logistics Limited

5. Key Risks and Mitigation Strategies

Investors highlight several perceived barriers to investing in Malawi's agricultural sector, which can be aggregated into a number of key risks to doing business. To address these investor concerns, there are measures underway by the GoM, donors, and in some cases private sector actors. Given Malawi's new administration and its commitment to reform in order to attract investors to Malawi there is a strong commitment from the GoM to mitigate risks and barriers where possible. The majority of mitigating strategies are part of government programs that are either already in place or are being reviewed for implementation in the short to medium term. The risks and examples of the corresponding mitigation strategies are outlined below:

5.1. *Political and Regulatory Risks*

The political environment in Malawi has been largely described as becoming much more investor friendly. Lately, there has been ample evidence of the political will to enact real reforms that impact the ease of doing business. However, even with these changes in mind, there are still significant reforms that investors would like to see in the regulatory environment.

5.1.1. Uncertain Policy/Regulatory Environment

The most commonly cited concern raised by the private sector with regard to policy issues in Malawi is the unpredictability of government intervention within markets.

Interventions in markets are often put in place for crops that are perceived to be important for food security within the country through price controls, subsidies and trade controls. For example, an export ban on maize has been in place since December 2011[88] and the licensing process for crops such as soybeans serves as an effective export ban[89]. On the one hand, it is argued that exporting prior to meeting local demand can lead to food shortage and can hamper adjacent sub-sectors such as livestock; but on the other hand, the unpredictable nature with which the trade control policies are put in place increases the risk of doing business in Malawi and threatens investor confidence. The net effect of government interventions results in an uncertain market in terms of the ability to trade goods freely, leaving investors wary of investing in Malawi's agriculture sector.

Some interventions also have positive spillover effects that the private sector and the country can benefit from. For example, the FISP which was initiated in 2005 to provide hybrid maize seed, fertilizer and pesticides to increase food security and income for rural farmers has yielded benefits such as increased maize production, with a surplus of 1.2 million tons in 2011[90] and increased SHF adoption of improved seed, with adoption rates increasing from below 15% to over 55%[91].

Examples of mitigating strategies that are in place to cover policy concerns will ensure policy reform and support the government in avoiding the development of policies that stifle private sector investment. Some supporting structures have also been put in place to influence policy direction and inject private sector perspectives into policy development.

[88] Malawi Today, "Malawi bans maize exports, amid reports of shortages this year," 29 December 2012

[89] Center for Implementation of Public Policy, "Political Economy of Agriculture Policies in Argentina and Malawi, " January 2011

[90] Malawi Nation, "1 Million Malawians Face Food Shortages", 7th June 2012

[91] Primary Interviews, Lilongwe, August – October 2012

Mitigation Strategy	Responsible Agency
The Malawi Confederation of Chambers of Commerce and Industry (MCCCI), is mandated to be an intermediary between the GoM and the private sector. It plays an important **role in advising the GoM on policy development and advocating for policies that benefit the Malawian private sector** and the growth of the economy by facilitating public private dialogue	MCCCI
The Presidential Advisory Committee on the Economy (PACE) was established by the GoM, in collaboration with the Brenthurst Foundation, to **assist Malawi with economic initiatives and reforms using a consultative and information based process** that takes into consideration the possible economic implications of policy. This will support the GoM in making policy decisions that support development and attract the private sector	PACE, OPC
The **Department of Private Sector Development** within the MoIT aims to create a **conducive environment for effective development and growth of the private sector** in Malawi, as well as to **facilitate private sector reforms** with the view to **improving private sector competitiveness and harnessing of local resources**	Department of Private Sector Development, MoIT
The government is conducting dialogue that shows **willingness to reverse policies that stifle commerce**. An example of this dialogue is the current discussion to repeal the *Strategic Crops Act,* which allows for market interventions in certain strategic crops and can lead to distortions in the agricultural market	OPC, MoAFS, MoIT
The **Agricultural Policy Project** proposed by USAID and currently in the proposal stage is intended to better **engage non-state actors in policy development**. If successful this has the potential to ensure that agricultural policies are developed with the private sector in mind and are not entirely politically driven	USAID, ASWAp

5.1.2. Slow Procedures due to Bureaucracy

Investors express discontent with the speed at which formal procedures such as attaining an export certificate or business license occur. The process for registering a business is intended to be complete within 21 days but can often take significantly longer due to the multiple departments that an investor has historically had to engage with. The World Bank "Ease of Doing Business Survey" ranks Malawi at 157 out of 185 countries in the "Starting a Business" measure. The process involves interactions with several government departments including Ministry of Finance, Ministry of Labor, Ministry of Industry and Trade, amongst others, all of whom have multiple requirements that investors must meet. The acquisition of land is also an issue at present, with confusion as to the actual policy and the procedures for land acquisition. The government is currently reviewing the underlying policies in order to increase access to land for agricultural purposes.

Mitigation Strategy	Responsible Agency
The passing of the MITC bill legally establishes MITC as the **centralized investor support system and "one stop shop" for investor start-up**. MITC is in the process of planning and implementing the "single window" model for investment startup. The details of how the MITC will coordinate with the relevant ministries that support the investment process will be completed as part of its strategic planning process in 2012	MITC, MoIT
The Office of the President and **Cabinet is currently reviewing the laws governing the land tenure system and procedures for land transfer.** Meanwhile, it is within the **mandate of the MITC to ensure that negotiation for land is facilitated** for specific investments	OPC, MoL, MITC
The **Business Environment Strengthening Technical Assistance Project** (BESTAP), funded by the World Bank, has a number of objectives, including **modernizing the land registry in order to speed up the process of land transactions**	BESTAP, MoIT, MoL
The planned implementation of **"one-stop border posts"**, currently being reviewed by the Ministry of Industry and Trade (MoIT), connecting Malawi to Zambia and Mozambique will **speed up the process of transporting goods** into and out of the country and also **reduce the overall cost**	MoIT
Implementation of the **digitization of company registration records, land records and immigration and trade information**, which is due for completion before the end of 2012 will **speed up procedures for accessing records related to business setup and cross-border trade**	BESTAP

5.1.3. Insufficient Coordination between Government, Donor and Private Sector Organizations

There is significant intervention in Malawi's economy from an array of donor agencies and government bodies. It has often been the case that interventions have not been well coordinated, particularly between the government and donor agencies, to ensure effective outcomes. In many cases, interventions are focused on only one area when there are other areas that need attention. Also, in some cases, the role of the private sector is not well defined and expectations for participation are voiced after the fact. In addition, one key barrier to implementation of government strategy is lack of coordination and communication between and within government ministries and departments.

Mitigation Strategy	Responsible Agency
The primary objective of the Donor Community on Agriculture and Food Security (DCAFS) is to **harmonize donor investment in Malawi.** DCAFS is **also engaging the private sector** in order to support the implementation of the ASWAp	DCAFS
The **improvement of communication linkages between Sector Wide Approaches (SWAps)** through the facilitation of dialogue between Technical Working Groups that operate within each SWAp, is helping to ensure alignment and coordination across SWAps	SWAps, Technical Working Groups

Mitigation Strategy	Responsible Agency
Private sector and government communication and coordination is currently being facilitated by the **Public Private Dialogue Division within the MCCCI** and is chaired by the Minister of Industry and trade	MCCCI
Definition and implementation of a **Trade Sector Wide Approach** will maintain the **improved linkages between government and the private sector** and the working relationships developed by preserving the cross-cutting Steering Committees formed during the National Export Strategy development process in 2011 – 2012	MoIT
The GoM and USAID recognize the need for **improved public-private coordination**. The government is working with USAID in order to develop a system that serves this function There is potential for this system to be incorporated into PIPaH's mandate, although this has not yet been confirmed	GoM, USAID, PIPaH

5.2. *Financial Risks*

5.2.1. Limited Foreign Exchange Generation

The trade deficit that Malawi suffers (estimated at 22% of GDP in 2010)[92] and the high dependence of the country on tobacco for foreign exchange often lead to foreign currency shortages. Investors have voiced this as a challenge for their businesses, especially because of the high dependence on imported equipment and raw materials.

Mitigation Strategy	Responsible Agency
Agricultural diversification, as implemented through the Diversification Study Phases I and II, will support a **shift in the country's economic dependence on the tobacco sector** for export earnings by providing for the **development of other high value crops to generate export earnings.** Government attempts to stimulate diversification can be seen through initiatives such as the **investment in the development of the cotton sector as a high value crop for export. Further interventions to diversify agricultural production are also planned**	MoAFS
Implementation of **the NES will encourage the cultivation of high value crops for export**, which will support the generation of foreign currency. The NES also focuses on **increasing value addition** to produce grown in Malawi. The **export of processed goods will increase the value of exports.** Another focus of the NES is to **support increased exports and revenue generation from existing clusters**, including tobacco, mining, tea, tourism and services	MoIT, MoAFS
The floating of the Malawian Kwacha lowered the price of Malawi's exports on the global market and is expected to continue to **lead to increased exports** in the medium to long term and increased access to foreign currency	GoM, MoF

[92] ITC; International Monetary Fund

Mitigation Strategy	Responsible Agency
The Government of Malawi has fostered an environment that has increased donor confidence in the country through strengthening the rule of law and observation of basic social rights, leading to **increased donor action and funding in Malawi**	GoM

5.2.2. Difficulty in Accessing Capital/Credit

Many investors who are dependent on local financiers for capital have cited the high cost of capital as a deterrent to growth. With the devaluation of the Malawian Kwacha, the ensuing liquidity squeeze led to increased lending rates. The majority of private sector actors interviewed cited having had to borrow at interest rates as high as 35%.

Mitigation Strategy	Responsible Agency
One of the key focus areas of the **Export Development Fund,** developed with support from the Reserve Bank of Malawi, is to assist cooperatives and private sector actors to implement agricultural projects by **providing professional management capability in order to access private risk capital**	EDF
Implementation of the Personal Property Security Bill, which is currently under review by Cabinet and is expected to be passed in 2012, will **allow citizens to use movable property (all property except for land) as collateral for financing** and will increase access to credit	MoIT, OPC
A large private bank has **plans to roll out more branches in rural areas** in order to capture market demand and **develop products suited to SHFs. Employer guaranteed loans** have been developed as a means for low income staff to gain access to loan facilities. Partnering with value chain actors who guarantee part of agricultural loans also increases access to financing	Private bank
Changes to land tenure legislation to clearly define and legalize land ownership to **enable people to use their land as collateral** when seeking loans. These changes can be expected to be implemented in late 2012 or early 2013	MoL

5.3. *Supply Chain Risks*

5.3.1. Difficulty Financing Farm Inputs

Investors note that a stable supply of high-quality crops is essential for success in agri-business. Experts agree that crop yields and quality can be improved by equipping growers with proper seed inputs and training in modern agronomic practices. In Malawi, where the primary growers are SHFs, a defined means for access to improved inputs is even more crucial because of the impact that it has on yields. Obtaining the necessary inputs typically requires significant financial capital in advance of the planting season, which is particularly difficult for low-income farmers. Difficulty financing and obtaining inputs in time for the target planting season often leads to the use of sub-optimal seed and fertilizer. As a result, when farmers are not able to save enough money from the end of one growing season to finance inputs for the next, there are lower yields. This leads to higher farm-gate prices due to limited supply and SHFs pushing up their prices to try to recoup the losses incurred by having a poor harvest. Stabilization of

prices and increased quality of output will require establishing reliable and sustainable avenues to get high quality inputs to farmers in time for planting season. In the current high interest rate environment, SHFs inability to access finance is exacerbated by the effective interest rate of up to 45% that SHFs receive.

Mitigation Strategy	Responsible Agency
Implementation of the Personal Property Security Bill, which is currently under review by Cabinet and which will **allow citizens to use movable property (all property except for land) as collateral for financing** will increase access to credit	MoIT, OPC
The implementation of **Savings and Credit Cooperatives (SACCOS)** to support SHFs by providing loans to access inputs	FUM, Farmer Cooperatives
A **solution being applied to increase access to loans for SHFs from banks and SACCOS is the provision of loans to small farmer groups** identified as being trustworthy and successful farmers. A **revolving loan system is used**, whereby one farmer per season is given capital, based on the group having collectively paid the deposit for the loan, and then once each loan cycle is paid off the next farmer in the group is provided the loan. This decreases the potential for defaulting by farmers as the group is required to ensure that the loan is paid back and each farmer is dependent on the other farmers paying their portion in order for the next farmer to be granted a loan. The main drawback to this intervention is the time required for all farmers in the group to benefit	Farmer Cooperatives, Farmer Groups, SACCOS, Private Banks
Value chain participation by private sector actors has in many cases helped to ease the cost of financing for SHFs. In **contract farming arrangements where the private sector merchant guarantees a portion of SHF loans**, the cost of financing has typically been lower for SHFs. Some private sector actors in Malawi have shown a willingness to operate under this model and that has helped to increase the volumes they can purchase from SHFs. **The Integrated Production System (IPS)** that the tobacco sector is in the process of implementing is a **valuable model for scaling up out-grower and contract-farming schemes,** which could be applied to other crops. It uses a **standardized framework** and **legally-binding contracts** to ensure that **all parties benefit** from the system	Private sector actors

5.3.2. Low Capacity/Productivity of Smallholder Farmers

In an environment where the majority of growers are SHFs, investors seek to partner with cooperatives and agro-dealers in order to leverage their capacity for aggregation of produce. Investors also depend on agro-dealers and cooperatives for training of SHFs in good agricultural practices in order to decrease the variability in output. Working directly with SHFs tends to be costly and inefficient for other value chain participants. Cooperatives fill many functions in the agricultural ecosystem including: improving access to inputs, training on good agricultural practices, aggregating output, securing market access, negotiating contract terms and managing relationships with buyers. It is therefore necessary that the capacity of cooperatives be ensured. There are many initiatives in Malawi whose aim is to ensure that cooperatives and farmers' unions have sufficient capacity to support, aggregate and represent SHFs in ways that guarantee their efficient and effective participation in markets.

Mitigation Strategy	Responsible Agency
The **establishment of the new commodities exchange,** Auction Holdings (AH), will provide **better market linkages** for farmers and a secure and cost-effective **buying platform** for purchasers of agricultural produce. The new Commodities Exchange remains in the startup phase but should be fully functional by the end of 2012. The existing Agricultural Commodities Exchange has traded over USD 25 mn of commodities this year and has over 7,000 MT of grains under its warehouse receipt system	AH
Efforts are underway by the Export Development Fund (EDF) and farmer organizations to **increase the development of cooperatives** to support training and development of SHFs, as well as to support the development of a business mindset	FUM , EDF
There is potential for the **increased use of anchor farm out grower schemes** to increase production volumes and production quality through the provision of support, such as inputs and technical skills, to SHFs from the anchor farm	Private sector, PIPaH
The **provision of large tracts of land** to enable investment in **large-scale commercial farming** with potential for inclusive farming will be facilitated under the **Green Belt Initiative**, which will **support increased production**	GBI, MoAFS

5.3.3. Insufficient Power, Transport and Irrigation Infrastructure

Investors in Malawi note the lack of infrastructure as one of the main challenges in conducting business. Internal roads are largely in good shape but there is a need to build more feeder roads to ease SHF access to markets. The process for getting access to water and electricity can be time-consuming, costly, and unreliable. The World Bank's 2012 "Ease of Doing Business" index ranks Malawi as 179th globally for getting electricity. Though there have been many strides taken and initiatives are underway to mitigate this, it is still an important consideration for the majority of investors, particularly those involved in the processing and value addition stages of the value chain. The development of irrigation infrastructure is also lagging behind the country's full potential for irrigation agriculture.

Mitigation Strategy	Responsible Agency
Efforts to establish **new power sources are currently underway**, e.g. the development of new hydro stations, including the Kapichira II project which is projected to provide an additional 64 megawatts to the national grid and is expected to be completed in August 2013[93]	MoNREE
Chinese state-owned company, Ghezouba, has committed to investing in the development of a USD 500 mn thermal energy generation plant in Mwanza, which will have the capacity to produce 1000 megawatts of electricity for the country and if it goes ahead should come online by 2015[94]	Ghezouba

[93] The Nation Newspaper, August 1, 2012

[94] Nyasa Times, September 26, 2012

Mitigation Strategy	Responsible Agency
Investments into the **upgrading of Malawi's electricity transmission system** by the MCC will **improve access to power** by enabling the purchase of electricity from Mozambique	MCC
The development of the **Nacala Corridor**, including **rail development and upgrading**, which will **improve Malawi's connection to the Nacala port**, as well as the **Zomba-Blantyre road development project** recently launched by the Ministry of Transport (MoT) and financed by the AfDB, to provide an alternative to rail transport along the Nacala corridor	Vale, MoT, AfDB

5.3.4. Variable Commodity Prices

Investors seeking steady financial returns are wary of fluctuations in commodity prices from one period to the next. Changing prices can be attributed to a range of causes: insufficient market information systems, government intervention in the markets through price controls, post-harvest flooding of markets, and off-season scarcity of products due to poor post-harvest handling, amongst others. The number of farmers participating in a value chain often varies year to year as the prices fluctuate, which also introduces uncertainty into the operating environment for investors. Shifting commodity prices can make it difficult for investors to predict the cost of goods sold and can impact overall profitability.

Mitigation Strategy	Responsible Agency
The new Commodities Exchange **will support price stability** and enable buyers to purchase goods from one point at which quality can be assessed. This will **remove dependence on the aggregation of mixed supplies** of product from numerous SHFs spread over long distances	AH
The new Commodities Exchange will provide **price information boards in rural areas** to update SHFs as to the current market prices. **Information will also be distributed to cooperatives for dissemination to their members**	AH, Farmer Cooperatives
The use of **warehouse receipt systems**, particularly by the Commodities Exchange, will help to ensure year-round supply of produce, due to improved storage techniques	AH, ACE
The **GoM's acknowledgement that market interventions distort the agricultural economy and the establishment of PACE** will support the removal of current policies that negatively affect markets, as well as the establishment of new policies, which stimulate a stable economy and reduce the risk of variable commodity prices	PACE, GoM, MoAFS, MoIT

5.4. *Market Risks*

5.4.1. Access to/Competitiveness in Export Markets

One of Malawi's goals is to increasingly become an export-oriented country. Many investors in Malawi share this ambition and aim to take advantage of regional markets that are close to Malawi as well as

global markets. The "land-linked" nature of Malawi, the many procedural steps for export certificates and the high cost of transportation are challenges that are often cited as inhibiting access to export markets.

Mitigation Strategy	Responsible Agency
The GoM has established an **export development support facility**, the Export Development Fund (EDF), based in the Reserve Bank, and targeted at increasing access to finance for businesses looking to export non-traditional commodities. This will assist in agricultural diversification and broaden the variety of crops grown for export to stimulate increased generation of foreign currency. The fund was started with approximately MWK 25 bn of seed capital from the Reserve Bank but is expected to become self-sustaining based on revenues from business services that will be offered	GoM, EDF
The Ministry of Lands (MoL) is looking to develop **transport options to facilitate access to port using the Beira corridor.** For example, the Nsanje Inland Port is set to be further developed and operationalized in order to ease access to Beira port	MoL
The planned **implementation of a National Single Window** for trade **will increase the efficiency of cross border movement of goods**. A single window is a facility that allows parties involved in trade and transport to lodge standardized information and documents through a single entry point to fulfill import, export and transit regulatory requirements	MoIT
The planned implementation of **"one-stop border posts"** along the Nacala corridor will **increase the speed and efficiency, as well as reduce the cost, of border crossings** along the corridor connecting Malawi to Zambia and Mozambique	MoIT
The UNDP and the EU are implementing a **project to develop the Malawi Bureau of Standards (MBS) to be internationally accredited by 2015**. This will render the certification of product quality more cost effective as it can be done locally and thus increase the pace at which products can be certified as being suitable for export to international markets	UNDP, EU, MBS

5.4.2. High Dependence on Imported Inputs and Equipment

Access to raw materials and inputs is a key consideration for many investors and can contribute significantly to operating costs. The developing nature of Malawi's economy usually means that many industries that are adjacent to agriculture are yet underdeveloped. Packaging materials and processing equipment are often imported. The government offers incentives to decrease the cost of these imports, but it is still a key consideration for many agriculture companies.

Mitigation Strategy	Responsible Agency
Ongoing **collaboration between the MITC and the Malawi Revenue Authority (MRA) to develop a set of incentives for investors entering Malawi**. This is to resolve confusion and inconsistencies experienced by investors when speaking to different ministries about incentives	MITC, MRA, MoF

Mitigation Strategy	Responsible Agency
Duty free importation of equipment is offered as an incentive to investors, and offers savings depending on the type of equipment and the amount of the investment being made by the investor	MITC, MRA, MoF

6. Investment Opportunities in Malawian Agriculture

Due to Malawi's agricultural production potential, market potential for agricultural output and the improving business environment, there are several investment opportunities in the country's agriculture sector. Through a consultative process engaging private sector, donor and government actors, numerous investment opportunities were identified. Subsequently, ten value chains were prioritized and specific investment opportunities were highlighted within each of these. The ten value chains include both short-term and long-term opportunities. This list is, however, not exhaustive and merely provides an indication of the potential that exists within Malawi's agriculture sector.

6.1. *Short-Term Investment Opportunities*

Five high potential value chains have been identified as having priority investment opportunities in which investments can be made immediately. The state of readiness of the respective value chains for investment is due to factors such as high market potential, strong competitiveness, high potential for social impact, and high investor interest as outlined below for each of the five value chains:

6.1.1. Groundnuts

Attractiveness and Market Potential

There is strong domestic, regional and global demand for groundnuts and their associated products. Malawi has a history of supplying high quality groundnuts, particularly of the Chalimbana variety[95], to the global market. These groundnuts are primarily used in the confectionary industry, although there are a number of other end-uses and by-products such as peanut oil, snacks, livestock feed and input into ready to use therapeutic foods (RUTF), among others, which expand the possibilities for groundnut processing. However, concerns over aflatoxin, a fungus that infects groundnuts due to excess moisture in the post-harvest phase, have resulted in the country losing much of its global share. The high levels of aflatoxin infection can be attributed to the use of poor post-harvest handling techniques, particularly by SHFs.

Groundnuts show the highest domestic consumption growth of the crops analyzed at 10%[96]. Positive consumption growth is also being seen in regional[97] and global markets in comparison to other crops produced in Malawi, at ~1% and ~3%[98], respectively. While consumption is primarily driven by the domestic market, a number of private sector companies have been able to control aflatoxin levels within the quality requirements of markets such as the European Union. Furthermore, these companies have been able to enter competitive export markets such as South Africa, which has a deficit in groundnut supply. With further resolution of aflatoxin issues there is potential to regain a strong global foothold within the groundnut market. By increasing the volume of exports to higher value markets, such as the UK and South Africa, Malawi will increase its export revenues as value is currently being lost by

[95] Imani Development, "Staple Foods Value Chain Analysis: Country Report – Malawi", 2010

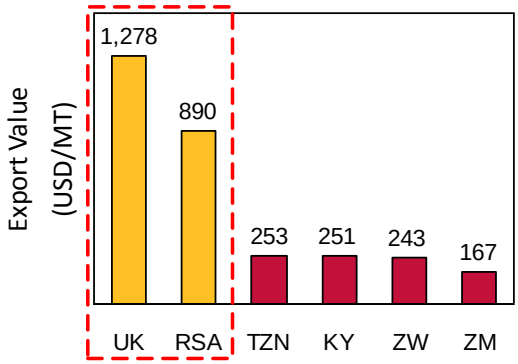
[96] FAOSTAT, International Trade Centre

[97] For the purposes of the study regional consists of Mozambique, South Africa, Tanzania, Zambia and Zimbabwe

[98] FAOSTAT, International Trade Centre

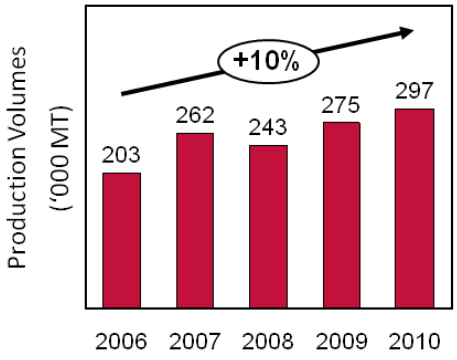
exporting mostly into low value East and Southern African markets. In 2010, Malawi exported 83% of groundnuts to Tanzania and Kenya and over 12% to Zambia and Zimbabwe, while only 0.08% and 3.4% were exported to the UK and South Africa respectively. The price differences between these markets are shown in Figure 26.

Figure 26: Export Price Comparison, 2010[99]



Malawi experienced high groundnut production growth between 2006 and 2010, with a compound annual growth rate (CAGR) of 10% as shown in Figure 27. Of all crops analyzed groundnuts exhibited the second highest production growth rate over this period. Growth in production in Malawi also far outweighs the growth seen both regionally and globally at ~2% and ~3%, respectively. This strong growth highlights the potential attractiveness of engaging in the groundnut value chain in Malawi.

Figure 27: Malawi Groundnut Production Growth (2006-2010)[100]



Competitiveness

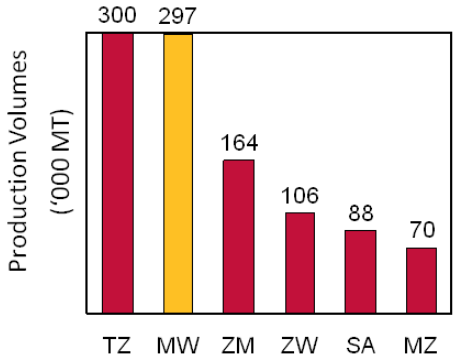
As a producer of groundnuts, Malawi has an exceptional competitive advantage compared to regional producers. Its yields are among the highest, with only South Africa showing higher yields. South Africa's yields are in line with global yields and are a reflection of the use of more technologically advanced farming techniques. The performance of SHFs in terms of the yields that they are able to achieve using less advanced farming techniques points to latent potential to increase yields in Malawi through the introduction of improved farming practices.

[99] ITC; UK: United Kingdom; RSA: South Africa; TZN: Tanzania; KY: Kenya; ZW: Zimbabwe; ZM: Zambia

[100] FAOSTAT

Production volumes eclipse those of the majority of the region at 104%[101] above the regional average, and are only marginally lower than the largest producer Tanzania. The production volume of Malawi as compared to SADC countries is shown in Figure 28.

Figure 28: Regional Comparison of Groundnut Production, 2010[102]



Malawi's price competitiveness is also an advantage with its pricing being 25%[103] less than the regional average. When this is combined with the competitive advantage due to the preferred Chalimbana variety that grows well in Malawi and is in high demand globally, particularly for use in confectionary products, there is a clear opportunity for investment in Malawi's groundnut value chain.

Investor Outlook

There are high levels of investor interest in groundnut production and processing. Research and interviews with the private sector in Malawi, as well as regional and global actors, show that interest in investing in Malawi exists. More than one large-scale agro-processor and trader with significant presence in sub-Saharan Africa has expressed interest in investing in groundnuts.

Existing companies based in Malawi and operating in the groundnut value chain show the potential for commercial success. These companies continue to work towards controlling levels of aflatoxin in order to be able to export end products beyond regional markets. The goal of most investors is to produce a high quality product that allows access to more lucrative markets in Europe. Even though they recognize that there is competition for that market from countries such as Argentina and the United States, there is a prevailing perception that European buyers are seeking to increase transactions with alternate sources of groundnuts and groundnut products. For example, United States groundnut production is declining with farmers switching to cotton as the incentives within their operating environment change and amidst the challenges of growing groundnuts in a frost-prone environment.[104]

Two firms currently operating successfully in Malawi's groundnut value chain are Afri-Nut and ExAgris. There is a desire to grow and increase markets reached by accessing debt or attracting risk capital investment.

[101] FAOSTAT, International Trade Centre
[102] FAOSTAT
[103] FAOSTAT, International Trade Centre
[104] Stakeholder Interviews; Lilongwe, August – November, 2012

Examples of Investment Opportunities

Groundnuts are a versatile crop that can be processed into a number of products, as well as having potential for waste material, such as husks, to be used in animal feed. Some of the specific opportunities that were identified include:

- Investing in the processing of peanut paste – An opportunity exists to invest in a processing plant that is currently in operation. The plant produces peanut paste for local and global distribution for use in peanut butter, RUTFs, as a flavoring and as an input into a number of other food products
- Investing in a plant that currently produces peanut oil for both the domestic and export markets – Domestically oil can serve as a substitute for more costly imported vegetable oils
- Opportunities exist in simple value addition to raw groundnuts, whereby groundnuts can be salted or roasted and packaged for sale in local and regional markets as a snack
- Each of these opportunities offers the potential for investment in the sourcing of unshelled groundnuts from SHFs, including ensuring that the groundnuts are properly handled and stored to provide a quality raw product for sale to processors both domestically and for export

Social Impact

There is high potential for economic spillover effects from investment in the groundnut value chain: the wide variety of uses has potential to stimulate economic activity within adjacent subsectors such as confectionary, oil production, and groundnut cake for animal feed.

The number of farmers involved in groundnut production in Malawi is second only to maize and is close to 1.5[105] million SHFs. As a result, investing in the groundnut value chain is likely to have numerous direct benefits to SHFs, many of whom are women.

Groundnuts also present an opportunity for social benefit due to their high nutritional value. Due to the high protein content, groundnuts are used as an input into RUTFs and contribute to supporting nutrition initiatives and providing a healthy food source for malnourished and vulnerable individuals.

Key Barriers to Address

A number of barriers to Malawi's competitiveness have been identified in the groundnut value chain. These include:

- Concerns over aflatoxin contamination – This is a major barrier to Malawi's exports, particularly to European and non-African markets, which typically impose higher quality standards
- High transport costs both within Malawi and to port for export, ultimately raising the end price of goods sold from Malawi and reducing profit margins and competitiveness
- Limited uptake of improved seed varieties due to a lack of access to capital by SHFs who are unable to afford the upfront expense of purchasing improved varieties
- Poor post-harvest handling and storage techniques used by SHFs leading to post-harvest losses

[105] Department of Agricultural Extension Services; FAOSTAT

6.1.2. Maize

Attractiveness and Market Potential

Maize is the staple food of Malawi, and there is high demand for maize and maize products, as illustrated by a 7% compound annual growth rate (CAGR) in maize consumption between 2006 and 2010 which amounted to an increase of over 760,000 MT. Maize production grew significantly from 2006 to 2010, with a CAGR of 7%. This is relatively high compared to the other value chains analyzed in Malawi and is above global production growth rates of 4%. However, when compared to the region Malawi is lagging behind the average growth rate of 12%[106].

As a staple crop much of the consumption has been driven by local demand. A high increase in exports, albeit from a very low base, from 2006 to 2010, at a CAGR of 61% shows some potential for Malawi to export its produce, particularly to neighboring countries, such as Zimbabwe. Despite this growing export trend and a decrease in imports of 28% per annum between 2006 and 2010, imported quantities (15,395 MT) of maize were still close to double the exported amount (7,841 MT) for that same period[107].

If this trend continues, there is a strong likelihood that the potential to export maize at scale will become a feasible opportunity, however at present the market for Malawian maize remains domestic.

There is country-wide knowledge and expertise in the production of maize. This creates an attractive scenario for investors as there are numerous sources from which the raw product can be purchased. As part of the GoM's Agricultural Sector Wide Approach (ASWAp) maize is a key focus of government subsidies, including the ongoing Farm Input Subsidy Program (FISP). This has supported the increase in maize production levels and the improved quality of produce.

Competitiveness

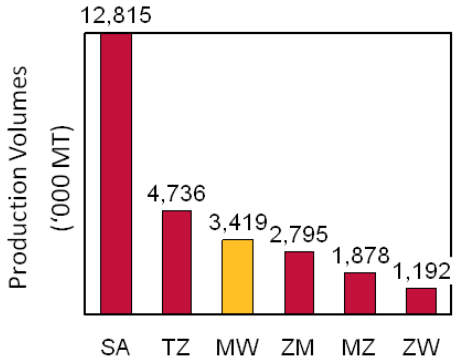
Compared to the region Malawi's competitive position appears weak, with relative production volumes of 27% below the regional average, and a yield variation of 40% less than the region in 2010[108]. However, these numbers are heavily influenced by the highly competitive nature of the South African maize industry. Among other SADC countries, Malawi's production is second only to Tanzania and yields are second only to Zambia. The production volume of Malawi compared to other SADC countries is shown in Figure 29. In this light, Malawi is shown to be highly competitive among its neighboring countries in the maize sector. South Africa does not compete directly with Malawi as its major export partners, ranked by value of exports per country, are Mexico, Korea and Italy. Malawi's primary export partners are Zimbabwe, South Africa and Mozambique. As a result of this trade dynamic, Malawi has the opportunity to further build upon its strength as a regional exporter, with potential to look further afield to global markets.

[106] FAOSTAT, International Trade Centre

[107] FAOSTAT, International Trade Centre

[108] FAOSTAT, International Trade Centre

Figure 29: Regional Comparison of Maize Production, 2010



The competitiveness of Malawi's maize sector is hindered by the fact that maize is the country's primary food security crop. It is therefore prone to government interventions, such as price controls and export bans. These create some uncertainty for investors.

Investor Outlook

Private sector actors in Malawi have expressed an interest in the potential to invest in Malawi's maize sector. This interest is driven by two opportunities, one in production and the other in processing. Production of maize for the Malawian market has the potential to be highly lucrative, particularly given the high volume of imports that Malawi currently depends upon. There is also potential for processing of maize into products such as maize flour, maize syrup, grits and corn-soya blend (CSB), amongst others. The one deterrent for the majority of investors is that maize is a food security crop and prone to interventions. There is still recognition that Malawi often does not meet domestic demand for maize, which is an opportunity for a private sector actor to invest in increasing production volumes. In the current context, the opportunity in maize primarily exists for investors interested in supplying to the local market or those interested in value addition activities.

Examples of Investment Opportunities

Due to maize's position as a staple crop that is consumed throughout Malawi, as well as in most regional and global markets, there is a high potential for investment in maize-based opportunities from both the production and processing perspectives. Some of the specific opportunities that were identified include:

- Investing in increasing the capacity of an existing processing plant that produces CSB, primarily for domestic sale to school feeding programs, as well as for regional export. Large-scale feeding programs, such as those operated by the World Food Program, also offer excellent markets for CSB, due to its nutritional benefits
- The opportunity to invest in agro-processing plants which can be used to produce snacks, syrup, grits, and beer, for example. Such products could be sold both domestically and for export, or for further processing
- Investing in commercial maize farming in order to increase Malawi's total maize production and generate surplus for processing and export. This opportunity is driven by the high consumption of maize products and the limited surplus that is available under current farming systems

- Opportunities in the provision and management of storage facilities through warehouse receipt systems. Such an opportunity would take advantage of the demand for increased storage capacity in Malawi and help to reduce wastage and increase price realization for SHFs

Social Impact

Maize is grown by 97%[109] of SHFs in Malawi. As a result the potential to improve the livelihoods of farmers is greatest through interventions into the maize sector. Whilst much of the produce grown by these farmers is directly consumed, those farmers able to produce a surplus for sale would be able to benefit directly from investments in processing plants that provide a market, for example. Also, increased storage facilities would support farmers who lose much of their harvest due to poor post-harvest storage practices, which often result in infestation by weevils. The use of storage facilities or warehouse receipt systems would also enable farmers to realize higher returns on the sale of surplus production by being able to sell at times of low maize availability when prices are at their highest, as opposed to being forced to sell directly after harvest.

The potential for economic spillover effects is highest for maize. This is primarily due to the wide variety of products that can be produced from maize in the agro-processing industry, both as end products for sale to consumers or as raw materials for use in further value addition.

Key Barriers to Address

There are some barriers to investment in the maize sub-sector that have so far deterred increased private sector investment. Some of these barriers include:

- Limited surplus production – The majority of production is consumed locally leaving little surplus for processing and export
- Volatility of production – As agricultural production in Malawi is primarily rain-fed maize production is highly susceptible to drought and other weather shocks resulting in inconsistent production volumes
- Government intervention – Due to the strategic nature of maize as Malawi's staple crop government intervention can result in market distortions. This has been seen through: the flooding of the market with maize from the strategic grain reserve (SGR) which negatively affects price realization; occasional export bans in response to expected food shortages within Malawi; and price controls by government
- Storage constraints - Insufficient storage capacity and poor storage techniques lead to significant post-harvest losses, due to rotting and weevil infestation

[109] Department of Agricultural Extension Services; FAOSTAT

6.1.3. Pigeon Peas

Attractiveness and Market Potential

Malawi is a highly attractive destination for investment in the pigeon pea value chain. It has strong market potential both domestically and globally, particularly in India, Europe and North America. Within Malawi, pigeon peas show the highest production growth (10.2%) of all crops analyzed and the third highest local consumption growth (8%), after groundnuts and cassava, respectively. This highlights the growing importance of the domestic market for pigeon peas and their processed products, but the mainstay of market demand remains in Asia, specifically India.

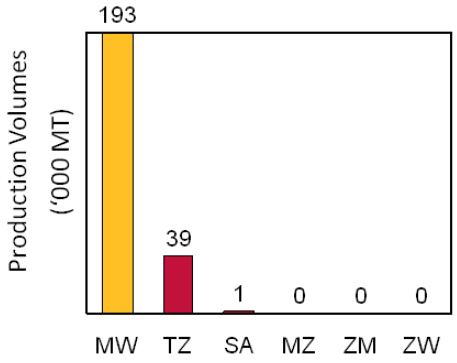
The top three importing countries are India, the United Kingdom and Netherlands, in order of magnitude of their import volumes from Malawi. Exports rose by 46% from 2006 to 2010, highlighting the increasing role that foreign destinations are playing in Malawi's pigeon pea market. Smaller quantities are also exported regionally to countries such as Kenya suggesting that there is potential in closer markets.

In Malawi, pigeon peas are grown in the highlands and in the Upper Shire Valley in the Southern region. The development of irrigation schemes in the Shire Valley could allow Malawi the potential for year-round production of pigeon peas. This would enable the country to offer more consistent supply to international markets and bolster confidence in the regularity and consistency of supply from Malawi, as pigeon pea production is currently reliant on rain-fed agriculture which exposes the country to production shortages during dry years. However, pigeon peas are relatively drought resistant and are not at as great a risk as many other crops.

Competitiveness

Malawi has a unique position within the region as one of the few pigeon pea producing nations. It faces limited regional competition, with only Tanzania and South Africa producing substantial volumes, as shown in Figure 30. South Africa however, remains a net importer of pigeon peas and only Tanzania offers competition in terms of export. As of 2010 Tanzania's exports were at par with those of Malawi. However, Malawi's production volumes far exceed those of Tanzania, providing Malawi with greater latent potential for ramping up its volume of exports.

Figure 30: Regional Comparison of Pigeon Pea Production, 2010[110]



[110] FAOSTAT, International Trade Centre

Malawi's production advantage comes from a 41% yield advantage, as of 2010, compared to the regional average. When directly compared to its main competitor, Tanzania, Malawi's yields are roughly 27% above Tanzania's, as well as being 23% above the global average[111]. In 2010 the value of Malawi's pigeon pea production was approximately USD136M, 12 times higher than its closest competitor, Tanzania[112].

There is high export potential for raw and processed pigeon peas, primarily for the preparation of dhal, as well as other associated products. Expert interviews have pointed to Malawi having a competitive advantage in terms of the variety of pigeon peas that it produces. The Malawian variety offers a favorable taste that is in high demand in India for use in dhal production.

Malawi has a competitive advantage over India due to when pigeon peas are harvested in Malawi. Malawi's harvest period coincides with India's dry season, a time of shortage in that country. Malawian exporters are thus able to take advantage of this shortage and the higher prices that are offered for pigeon peas over this period. Recent demand increases from the United States also provide significant export potential for Malawian producers.

In terms of processing, a number of facilities in Malawi are currently operating under capacity. This highlights the potential for increased production as there is room in the local market for the absorption of additional production volumes.

Malawi's competitiveness is consolidated by the existence of a number of private sector actors already established in the country. Two of the largest regional and local actors operating in Malawi's pigeon pea value chain are Export Trading Group and RAB Processors, respectively.

Investor Outlook

Pigeon peas are emerging as an attractive crop for potential investors in Malawi. The presence of large actors already operating in the country instills confidence and also suggests good potential for further investment. Existing actors in the market cite some excess capacity that is available at the processing stage of the value chain, creating opportunities for private sector participation in production.

Markets are available to absorb excess production of pigeon peas from Malawi. For example, a major Indian importer, Alfa Corporation, recently expressed interest in sourcing pigeon peas from Malawi, highlighting the country's potential to serve the Indian market[113]. The market for both raw and processed peas is sufficiently large that investors believe that current levels of production can be increased significantly without negatively impacting the ability to sell the crop.

Examples of Investment Opportunities

A number of specific opportunities exist in the pigeon pea industry. These can take the form of production of pigeon peas for sale as a raw product to processors or for export, as well as investing in the processing of pigeon peas. Some of the specific opportunities that were identified include:

- Investing in an established dhal processing plant – The dhal can be exported to other markets in addition to the Indian market, such as European markets

[111] FAOSTAT

[112] FAOSTAT; International Trade Centre; TLII, 2009

[113] Malawi Nation, "India opens pigeon peas market for Malawi", 9 October 2012

- Investing in irrigation cultivation – The investment in large-scale irrigated pigeon pea cultivation in the Upper Shire Valley where pigeon peas grow well would enable year round production of pigeon peas for sale both domestically and to international markets, particularly India. The primary investment would be in setting up the irrigation scheme, although there is potential to combine this with government investments, such as the Green Belt Initiative. The use of an anchor farm and out grower scheme is likely to be a beneficial strategy, particularly to ensure sufficient land can be acquired in order to maximize output.

Social Impact

Pigeon peas offer a number of social benefits and investment in this sector would increase the scale at which these benefits are seen locally. Economic spillover effects from investment in the pigeon pea value chain will come mainly from increased agro-processing to produce products from raw pigeon peas, which will stimulate employment and the development of processing skills amongst Malawians employed in these operations.

Close to 1 million SHFs are engaged in pigeon pea production, providing large potential for SHF engagement. Such engagement would lead to direct improvements in the livelihoods of these farmers should they begin to produce greater quantities of higher quality pigeon peas for sale to aggregators and processors.

Pigeon peas are an excellent source of nutrition, particularly protein. As such, they are an important crop to support current government initiatives to improve the nutrition of the Malawian population.

As a legume crop pigeon peas have nitrogen fixing properties, which help to improve soil health. This is particularly important for SHFs who often do not have physical or financial access to the necessary inputs required to maintain soil health. An increase in production of pigeon peas will support increased production of other crops grown by farmers in intercropping systems.

Key Barriers to Address

There are a number of barriers present in the pigeon pea value chain. The key barriers that could affect investors are described below:

- High export costs – Export costs to international markets are significantly higher than in Tanzania or Kenya for example, due to Malawi's land-linked position. However, improvements in rail and road transport systems and port linkages are underway and will help to alleviate this issue.
- Poor SHF farming practices – For investors to engage SHFs in the production of pigeon peas they will likely be required to provide some training and technical assistance to these farmers as at present SHFs use poor farming techniques and there is limited understanding of the importance of adopting improved seed varieties.
- Short export window to India – The opportunity to take advantage of supply shortages in India is limited due to the brevity of the period in which exports must take place. Thus, there is a finite amount that can be exported, which is restricted due to logistical constraints of moving produce to port for export. However, this challenge is alleviated by the existence of annual demand from other countries such as the US, UK and in East Africa.

6.1.4. Soybeans

Attractiveness and Market Potential

Soybeans are a globally attractive crop with international trade reaching around USD50bn per annum[114]. The attractiveness of soybeans as a commercial crop comes from high global demand for soybeans and soybean products, including oils and soy sauce, used in corn soya blend (CSB) and other fortified foods, and animal feed, to name a few.

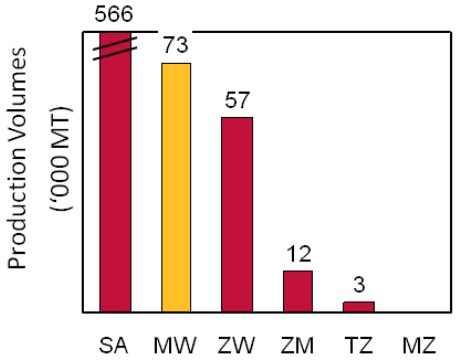
There are very high levels of investor interest in entering the Malawian soybean market due to its established ability to serve regional markets. At present Malawi is exporting 15%[115] of its production, which was close to 10,700 MT in 2010. Its primary export markets are regional, with the top three being Zimbabwe, Zambia, and Kenya, respectively.

Consumption growth (2006-2010) both locally and globally is at around 5%, whilst regional consumption of the countries analyzed is very low, at less than a percent[116]. This suggests that whilst Malawi is currently focused on regional markets due to their proximity and ease of access it would be a valuable investment to diversify the soybean products marketed to regional markets and also target faster growing markets elsewhere in the world. As per the National Export Strategy, Egypt offers high potential as a future target market due to the sheer size of the demand in that country, at USD 900 million, compared to the relatively low demand in the rest of Africa. However, markets outside of the African continent will also be opened up with imminent improvements to transport infrastructure and thus increased port access which will allow Malawi to become competitive in some overseas markets.

Competitiveness

Malawi's production is competitive within the region, apart from South Africa where exceptionally high volumes are produced relative to those produced by Malawi and the next largest producer, Zimbabwe, as shown in Figure 31. Due to the large-scale commercial nature of soybean production in South Africa, Malawi and other regional actors are unable to compete in terms of production volumes.

Figure 31: Regional Comparison of Soybean Production, 2010



[114] Malawi National Export Strategy: Annex 2 - Oil Seed Products Strategy, 2012

[115] FAOSTAT, International Trade Centre

[116] FAOSTAT, International Trade Centre

Low yields of ~1 MT/ha, as of 2010, are restricting Malawi's production potential. Through investment in the improvement of farming techniques and the use of the correct inputs, as well as increasing the land area under cultivation, there is potential to improve yields and thus production. The government of Malawi has made the decision to begin to include legume seeds in the FISP. The provision of higher quality and subsidized seeds to soybean producers will support improvements in yields, as well as making growing soybeans more attractive to farmers. The inclusion of legumes under the FISP program will also help to reduce what are currently uncompetitive producer prices for soybeans in Malawi.

Investor Outlook

Of the value chains discussed for consideration for short term investment, the soybeans value chain had the most investor interest. The primary driver of the high levels of investor interest is the multiple products that can be made from soy, allowing a single investment to yield a number of levels of value. For example an oil extraction plant, yields oils and cake. The cake can be used for livestock feed, whilst the oil can be purified to make cooking oil and the remnants used in soap manufacturing.

There is an existing soybean processing sector in Malawi demonstrating the potential for successful commercial processing to take place. One company involved in the industry is the commercial arm of National Small Holder Farmers Association of Malawi (NASFAM), which has shown a good level of success thus far.

Investor interest is soy is also driven by the multiple layers of potential markets for soy products. There is demand from downstream industries such as livestock and soap manufacturing that apply soybean components. There is demand for soybean food products through retail outlets. Also, governments and donor programs are interested in fortified foods for distribution to vulnerable populations through, for example, school feeding programs. The World Food Programme (WFP) has expressed interest in transacting with soybean suppliers in the country to supply the WFP with corn-soya blend and other highly nutritious food supplements.

Examples of Investment Opportunities

The high nutrient value of soybeans, its popularity in a variety of traditional meals, particularly in Asia, and its inclusion in numerous products, particularly as a healthy alternative to other oils and as a protein replacement for meat, make soybeans an exceptionally versatile crop. Some of the specific opportunities that were identified include:

- Investing in a processing facility and in equipment to produce textured soy protein (TSP) as an input into ready to use therapeutic foods (RUTFs). There is a large market for RUTFs, particularly for vulnerable people and those suffering from HIV/AIDs and other chronic illnesses
- Investing in a Greenfield public-private partnership to grow and multiply soybean seed. This opportunity has been raised by a number of stakeholders due to the need for increased seed multiplication for local and regional dissemination. The potential exists for the private sector to begin to leverage ongoing government and donor initiatives for seed multiplication and dissemination and to take over control of these initiatives on a commercial basis going forward
- Investing in the processing of soybeans for use in fortified foods, such as CSB. There is large potential to distribute CSB and other fortified foods to school-feeding programs, hospitals, as well as large buyers, such as the World Food Program

- Processing soybeans for value addition into a variety of products, such as soya oil, cake and flour. Such an investment could be combined with investment in other processing facilities and allow for a wider range of products to be produced and sold

Social Impact

The direct benefits to SHFs through investing in the soybean sector may not be as high as other value chains due to the lower number of SHFs engaged in soybean production, approximately 380,000. However, with investment in the value chain and the requirement of greater volumes to be produced to feed into processing plants, there is likely to be an increase in the number of farmers choosing to grow soybeans. Jobs will be created at both the production and processing stages of the value chain and the development of much needed industrial skills will be gained by those employed in the processing sector.

As with other legumes soybeans have nitrogen fixing properties, which support improvements to soil health. This is of particular importance in helping SHFs, who are intercropping and farming intensively with limited use of fertilizer, to maintain soil health. Parts of the soybean plant can also be left after harvesting to provide animal feed.

Key Barriers to Address

There are a number of barriers present in the soybean value chain. The key barriers that could affect investors are described below:

- International competition – There is high, and growing, production in South America, particularly in Brazil and Argentina, which limits Malawi's potential for international competitiveness. However, the sense amongst investors is that the quality of soybeans produced in Malawi is significantly higher than in South America. Malawi should, therefore, increase volumes and continue reducing costs in order to remain competitive
- Regional competition – South Africa and Zimbabwe are also major regional producers and pose a challenge in that they have access to the same regional markets. However, Malawi has the opportunity to build upon its dominance over Zimbabwe, which is currently a net importer from Malawi, despite its own strong production. Actively working to maintain its regional share should allow Malawi to mitigate the risk of competition from South Africa, particularly since South Africa focuses on higher value markets outside of the region.
- Low productivity of SHFs – Poor comparative yields of Malawi are holding back production potential and limiting the quantities for processing and export. Backward integration by value chain participants to introduce improved technologies can significantly improve productivity
- Limited processing facilities – There are few processing facilities to support value addition and the processing of soybeans to the various products that it can be used for. This creates not only an investment opportunity for the private sector, but can also increase marketing options for growers, therefore increasing production
- Weak access to market – Current access is difficult due to Malawi being "land-linked" and the high cost of road transport and limited railway capacity within the region and to port for export
- Lack of storage facilities – Improvements are required in the number and quality of storage facilities available to avoid post-harvest losses and allow for the stockpiling of production for post-harvest when it is required for processing

6.1.5. Sugarcane

Attractiveness and Market Potential

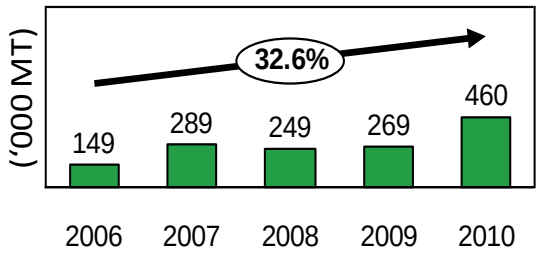
Malawi's geographical positioning provides it with exceptionally favorable agro-climatic conditions for the production of sugarcane. The requisite skills and knowledge to produce sugarcane in Malawi already exist due to Illovo Sugar Company's long-standing presence in the country.

The bulk of sugarcane production comes from the Illovo Sugar Company's commercial estates, all of which is processed by the company at its local processing facilities. However, as Illovo requires more raw produce than it can achieve alone, the use of out grower schemes is becoming far more prevalent. This is a mutually beneficial system as Illovo is able to increase its production volumes and the farmers engaged as out growers benefit through training and investment from Illovo in order to be able to produce sugarcane that is of suitable quality.

As part of the National Export Strategy, sugarcane is one of the three priority clusters that have been identified. As a result investment in developing the sugarcane industry is being spearheaded by the government of Malawi and investors looking to enter Malawi for the purposes of engaging in the sugarcane cluster can expect strong support from government in this regard.

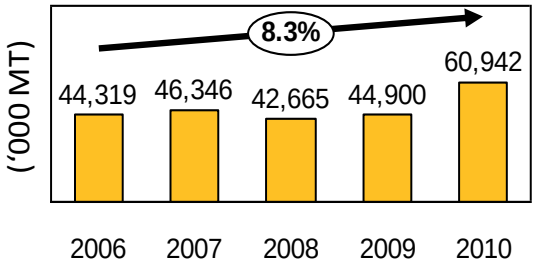
Within Malawi there is a single, structured market for sugarcane, due to Illovo being the primary buyer and the only processor and exporter of sugarcane products. The regional and global demand for sugarcane products is large and growing, as illustrated by Figures 32 and 33. Also, a number of regional and large-scale investors have expressed interest in investing in Malawi's sugarcane industry, exhibiting confidence in the future growth of this sector.

Figure 32: Regional Demand Gap[117]



[117] FAOSTAT; International Trade Center; Note: Imports are used as a proxy for demand gap

Figure 33: Global Demand Gap[118]

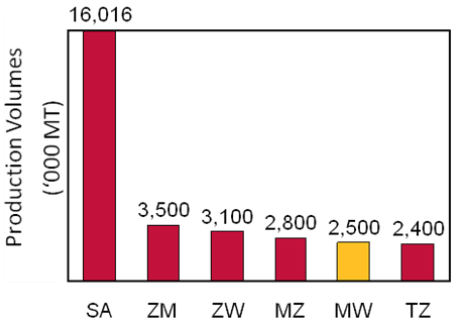


There is potential in Malawi for large-scale, commercial farming of sugarcane, and opportunities for inclusive agriculture through out grower schemes. This is made more attractive by the relatively high yields realized in sugarcane production per hectare cultivated, meaning that investors can realize good returns with less land under cultivation than is required for other crops. Investors can focus on production of sugarcane for direct sale or they can set up processing facilities, to process raw sugarcane into food products, animal feed and ethanol, for example.

Competitiveness

Malawi's proven ability to produce high quality sugarcane provides it with a competitive advantage, primarily due to its agro-climatic conditions. Its 2010 production volumes of 2.5 mn MT of sugarcane were valued at over USD 69 mn[119]. Malawi's production volumes are low in comparison to the region; however, this is due to the limited area under cultivation. Production volumes compared to other SADC countries are shown in Figure 34.

Figure 34: Regional Comparison of Sugarcane Production, 2010

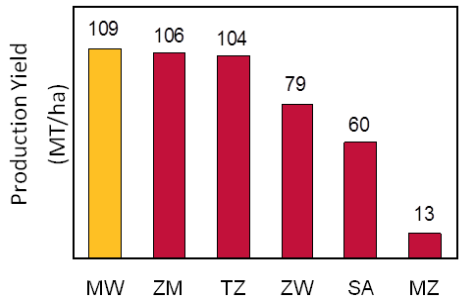


Malawi has high relative productivity when compared to other SADC producers of sugarcane, with yields of more than 62% above the weighted regional average, which highlights the potential for significant increases in production volumes if the land area under sugarcane cultivation were to be increased. Malawi's yields in sugarcane, as compared to other SADC countries, are shown in Figure 35. Increased cultivated area will positively impact Malawi's regional and global competitiveness.

[118] FAOSTAT; International Trade Center; Note: Imports are used as a proxy for demand gap

[119] FAOSTAT, International Trade Centre

Figure 35: Regional Comparison of Sugarcane Yields, 2010



The Malawian government is investing in infrastructure to improve the competiveness of sugarcane production in the country as it is one of the three priority clusters targeted by the NES. Large tracts of land have been designated for sugarcane production by the government and irrigation infrastructure will be developed on this land under the government's Green Belt Initiative (GBI). This will provide investors with a number of benefits, including support through government co-investment in basic infrastructure and sector development, opportunities to participate in public-private partnerships (PPPs), and ease of market entry due to government support.

Investor Outlook

There is significant investor interest in sugarcane in Malawi from local, regional and global actors. The level of success that Illovo Sugar has had in Malawi demonstrates that there is value to be captured by participants within the value chain. The development of irrigated land under the GBI is also a key driver of this interest, with the GoM investing heavily in the development of land suitable for sugarcane production, among other crops. The GoM is actively seeking an investor to form a public-private partnership on one of the GBI sites earmarked for sugarcane production and processing.

Despite the fact that Illovo's success signals potential for value creation in the sector, the company's dominance has historically been a deterrent to potential entrants. Partnering with the GoM in a PPP arrangement will allow a competing investor to enter the subsector at a fraction of the associated cost and create the ability to be competitive in the short term.

Examples of Investment Opportunities

Broad investment opportunities exist in the sugarcane sector. The selection of sugarcane as a focus cluster in the NES, as well as the focus on stimulating value addition increases the viability of investments in sugarcane, as well as increasing the level of government support that can be expected by investors. The two specific opportunities that were identified are:

- A Greenfield investment in sugarcane production – Production opportunities exist under the GBI to take advantage of the tracts of land that have been identified by the government for this purpose. Currently, 4,000 ha of the land is to be made available to an investor to develop a sugar plantation, whilst the remaining 2,000 ha will be developed by government for SHFs who will operate as out growers. Potential exists to structure the venture as a PPP. Production can be linked to existing sugarcane processors in Malawi.

- A Greenfield investment in a sugarcane processing plant – With the increasing volumes of sugarcane that are expected to be produced in Malawi under the GBI a processing plant to produce various sugar-based products has good potential as an investment opportunity. The government is looking to construct a processing plant, together with a power plant, under a build-operate-transfer agreement. There is an opportunity for an investor to run the fully functional plant with trained staff after 1-2 years under a PPP agreement

Social Impact

As the government implements the GBI, with active inclusion of SHFs, more farmers will become directly engaged in the sugarcane production and processing industries. Farmers will either be employed directly on estates or through contract-farming systems. The investment by government to grow the sugarcane sector will ensure that the necessary support is provided to these farmers to effectively engage in the commercial sugarcane industry. As a result there will be high direct benefits for farmers engaged by the sector. Other potential benefits will include skills development and opportunities for growth in adjacent industries such as beverages.

It will be necessary to ascertain ownership and value capture for local communities, in order to avoid loss of food security for SHFs due to increased commercial production of sugarcane at the expense of food crops for subsistence.

Key Barriers to Address

There are a number of barriers present in the sugarcane value chain. The key barriers that could affect investors are described below:

- Large initial investments required – Significant investments will be required for land preparation and subsequent development of irrigation infrastructure. However, the GBI offers potential to reduce some of these costs as the government will invest in developing infrastructure due to the current drive to expand the sugarcane sector
- High global competition – Despite the size of global demand for sugarcane and related products, Malawi would have to compete with large producers, such as Brazil. However, Malawi can position itself as a supplier within the region and focus on identifying markets within which it can be competitive
- High transportation costs – Currently, distances from where sugarcane is produced to where it is processed are long which increases costs. Some of these costs may be mitigated as the industry develops and new processing plants are established closer to production sites

6.2. *Medium- to Long-Term Investment Opportunities*

Five value chains have also been identified as having potential for medium- to long-term investment. These are designated as longer term because the potential for value creation is coupled with some significant barriers that need to be addressed either by private sector actors or by the government. The state of readiness of the respective value chains for investment is hindered by value chain challenges that can be overcome through partnership or additional upfront investment:

6.2.1. Cassava

Attractiveness

The attractiveness of cassava lies in the high production volumes and competitive yields that Malawi achieves (Figures 36 and 37) due to favorable agro-climatic conditions. In Malawi, cassava is typically grown as an alternative food source in case of poor maize harvests and the majority of produce is consumed on-farm.

Cassava's drought resistance and ability to grow with little added inputs or effort by farmers makes it an attractive food security crop.

Figure 36: Regional Comparison of Cassava Production, 2010[120]

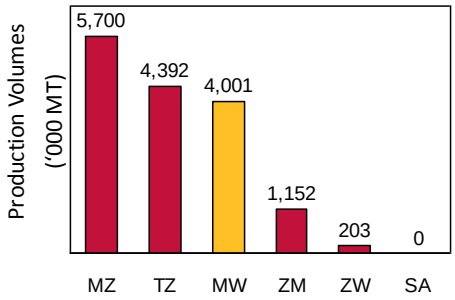
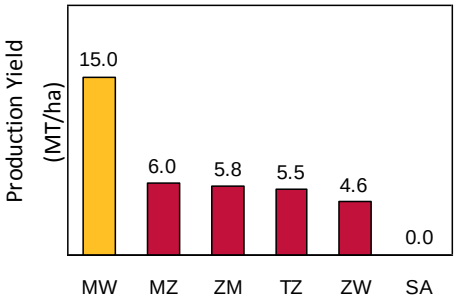


Figure 37: Regional Comparison of Cassava Yields, 2010[121]



With regards to social impact, cassava is grown by a large number of farmers, around 653,000[122], and thus has high potential for social impact in terms of the number of farmers that can be reached. However, it has very low potential for economic spillover effects.

As a commercial venture, cassava is a difficult crop to manage given current barriers in Malawi, such as poor transport networks and the limited presence of cassava processors. As a result the size of the investment required to establish a large scale operation is high due to the cost that would be incurred to overcome these barriers. There is only a 48 hour window after harvesting within which cassava must be processed. Given the limited transport and processing capacity in Malawi this provides a major

[120] FAOSTAT

[121] FAOSTAT

[122] Department of Agricultural Extension Services; FAOSTAT

challenge for producers and processors. Significant investment would be required to establish effective aggregation, logistics and processing facilities for cassava to become more than a subsistence crop.

An accessible market for the crop does exist in Malawi. It has been estimated that Malawi requires 2 mn MT of cassava starch annually for use as a wheat substitute in bread and biscuit manufacturing, for glucose production, and for industrial purposes, such as in batteries, cotton spinning, matches, and the manufacture of packaging chipboard and plywood. Limited processing of cassava for starch is currently taking place in Malawi; however potential does exist for the development and expansion of processing facilities with a number of companies already establishing their own processing facilities to produce starch for industrial purposes[123].

Illustrative Investment Opportunities

There are a number of opportunities for investment in the cassava value chain. These potential investments include:

- Investing in the processing of high quality cassava flour (HQCF) – HQCF can be used as a substitute for wheat flour. Confectionery producers in Malawi, such as Universal Industries, are already using HQCF in some of their products citing that the application of cassava as a flour substitute significantly lowers the cost without excessively impacting the taste of products
- Investing in the processing of cassava for starch – Cassava is a good source of low cost, high quality starch for use in industrial applications, as well as in food products. It can be used as an input into a diverse range of products, including paper, textiles, adhesives, beverages, confectionery, pharmaceuticals, and building materials and the use of these materials will increase in Malawi as the country continues to develop manufacturing and processing industries

6.2.2. Cotton

Attractiveness

Cotton has consistently been one of the major export crops for Malawi and ranks fourth as an export earner after tobacco, tea and sugar, respectively. Local conditions are fit for the production of cotton, particularly along the lake shore due to the soil type in this area. Cotton is grown on around 30,000 ha of land and supports the livelihoods of between 80,000 and 90,000 SHF families[124].

There are numerous uses for cotton products. The seeds can be used in animal feed as well as for oil production. The processing of cotton into ginned cotton and lint are also potential opportunities for investment.

In recent years cotton has been deemed a focus crop for government intervention, as part of Malawi's intent to diversify its economy from high dependence on tobacco. SHFs have been encouraged to grow cotton and increase production volumes. As an oilseed crop, cotton is also designated as a focus crop by the government as part of the NES. Thus far, ongoing assistance of SHFs is leading to increasing quality and yields and further government intervention is planned to address the limited knowledge and

[123] Imani Development, "Staple Foods Value Chain Analysis: Country Report – Malawi", 2010

[124] NES, Annex 2 – Oil Seed Products Strategy

expertise in the growing of cotton amongst SHFs. This intervention will support improvements in the quality and quantity of output by encouraging the adoption of better quality seeds and the correct use of inputs and farming techniques to improve yields. Higher volumes and quality will create opportunities for private sector participation in the medium term, particularly through contract farming schemes which companies such as Cargill have been operating effectively in Mozambique and Zambia.

In 2010 Malawi was the second smallest producer of cotton in the region, with 29,000 MT, compared to Tanzania, the largest producer, at 315,000 MT[125].

A barrier to the cotton industry in Malawi is poor farmer organization for the buying of inputs and marketing of produce.

Illustrative Investment Opportunities

Taking a longer term view of the cotton sector potential investments include:

- Investment in value addition – Given improvements to production there is likely to be an opportunity for value addition to process the raw product into oil, ginned cotton or lint
- Investment in production – Combined with government's desire to spur development in the cotton industry, there are opportunities for the private sector to engage in production activities. Large agricultural companies are engaged in contract farming of cotton in Mozambique and Zambia, and interest has been expressed in replicating this model in Malawi

6.2.3. Macadamia

Attractiveness

The global market for macadamia nuts was approximately 12.7 mn MT as of 2010[126]. In the SADC region, Malawi is a relatively small producer of macadamia nuts. The country produced 3,100 MT of macadamia nuts in 2010, which accounts for only ~3% of Tanzania's production with Tanzania being the largest regional producer[127]. The majority of Malawi's production is exported and the country captures more value per ton than Tanzania. The country's export price per ton for 2010 was USD6,872/MT compared to only USD552/MT realized by Tanzania[128]. This price difference suggests high potential for Malawian producers and processors to earn excellent revenues by entering the macadamia nut value chain.

Due to the small scale of production, as well as the low number of laborers required in production, there is limited opportunity for social impact or the inclusion of large numbers of SHFs into the production stage of the value chain. Macadamia production employs the second lowest number of SHFs of the crops analyzed, at over 16,000 individuals[129]. However, its potential as a high value export crop would be beneficial to generating foreign revenues for Malawi.

[125] FAOSTAT

[126] FAOSTAT

[127] FAOSTAT

[128] International Trade Centre; Note: 2011 figures used for Tanzania as no 2010 data was available

[129] Department of Agricultural Extension Services; FAOSTAT

There are some actors in Malawi with established relationships with large multi-national companies, including Hershey's. Such relationships are a promising sign and given investment in the sector over the long-term macadamia could become an important export commodity for Malawi. For this to be achieved production volumes would need to be increased significantly and investment in processing facilities would be required. This is a long-term investment primarily due to the length of time that it takes macadamia trees to mature before their first harvest. The typical timeframe for the tree to reach maturity is between 8 and 10 years. As a further challenge, young trees are highly susceptible to disease and pests and a high level of technical knowledge is required to tend to the trees during the maturation phase, as well as afterwards. At present these skills are rare in Malawi but due to the agrarian nature of Malawians, there is potential for farmers to be taught the necessary skills.

The key benefit of macadamia nuts is that it is a high value crop, and it grows well in Malawi. Despite the challenges listed above, actors who are willing to invest in the long term will enjoy high prices that can be realized from the export of macadamia nuts to the global market.

Illustrative Investment Opportunities

A number of long-term investment opportunities exist in the macadamia nut value chain. These include:

- Investing in macadamia production – This is a long-term investment given the time taken for macadamia trees to mature. The potential to capture a niche in the market exists given high global demand and export potential of the crop
- Investing in the processing of macadamia nuts – There are a variety of options in terms of adding value to macadamia nuts, which can increase the value of the end-product four-fold. These include sugar coating and roasting.

6.2.4. Rice

Attractiveness

Malawi produces a popular variety of aromatic rice, namely the Kilombero variety. Malawi's rice is currently sold primarily to the local market, with consumption in 2010 estimated to have been 100,000 MT[130]. The majority of rice exports are to neighboring countries, primarily Zimbabwe and Zambia, at 49% and 24% of total exports, respectively.

Malawi's competitive advantage in rice lies in the variety that it produces, which is popular locally, regionally and in global markets. There is high demand for this variety and consumers are willing to pay a premium as evidenced by the high sales of the premium aromatic brand of a local rice processor, compared to its lower priced non-aromatic varieties[131].

Malawi is a relatively small producer in the region. In 2010 Malawi produced over 110,000 MT of rice, which is less than 10% of Tanzania's total output of 1.1 mn MT[132]. What is important to consider is that Malawi's land area is far smaller than that of its neighbors, particularly Tanzania, yet it ranks third in terms of production volumes, after Tanzania and Mozambique. In this light its production volumes are quite impressive and can be linked to good yields, which are approximately 26% above the regional

[130] FAOSTAT, International Trade Centre

[131] Primary Interviews, Lilongwe, 2012

[132] FAOSTAT

average. Through the use of irrigation, these yields and overall production could be increased significantly, to the point where Malawi is a major regional producer of rice.

Further investment is required to expand the area under cultivation, promote the use of improved seeds and better farming techniques, as well as to develop irrigation systems to increase the number of harvests per year and the yield per harvest. Such investment would increase production volumes in order for rice to be competitive in terms of the scale of its production and to bring down the overall price of Malawian rice. The GoM, through the GBI, is investing in rice production capacity by acquiring land and developing irrigation infrastructure, with interest in PPP arrangements for the project. There is also room to increase processing capacity in Malawi and produce more branded rice for regional markets.

Illustrative Investment Opportunities

Some of the investment opportunities in rice include:

- Investment in production of long grain aromatic rice for export – There is regional demand for long grain aromatic rice, particularly the variety produced in Malawi. Investment in increasing production levels and lowering the currently uncompetitive prices of rice could provide an opportunity to enter the export market on a larger scale

- Investment in production of Malawian rice for the domestic and regional market – Demand exists locally for Malawian rice, even that which is sold at a premium. There is also the potential to regain market share in neighboring countries, given that Malawi can become price competitive with Asian suppliers, such as Vietnam

6.2.5. Tea

Attractiveness

Tea is one of Malawi's major export crops. Malawi produced 52,000 MT of tea in 2010, and is the second largest producer in Africa, after Kenya[133] . Tea is Malawi's second largest export crop and has well-established marketing channels, with 97% of all production exported in 2010 (Figure 38). The top three export destinations by value for Malawi's tea exports are South Africa, the UK, and Kenya (Figure 39). Malawi has high tea yields, which are 18% above the regional average.

[133] CIE, "Study on the Assessment of the General Environment for Agricultural Diversification in Malawi", 2012

Figure 38: Tea Production and Exports, 2010[134]

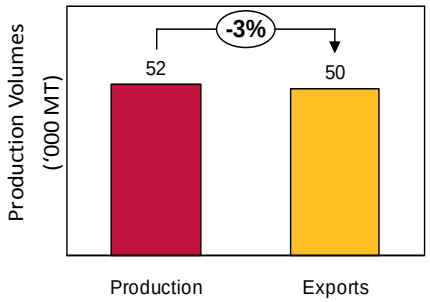
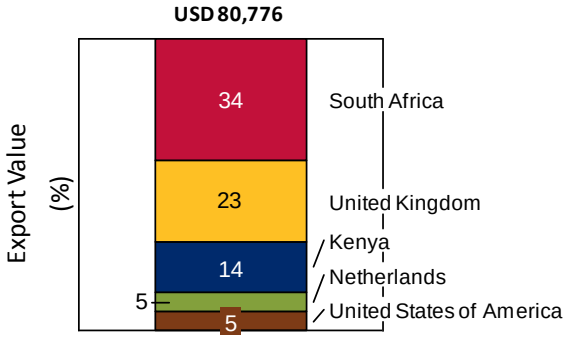


Figure 39: Malawi's Top 5 Export Destinations by Value, 2010[135]



Tea production takes place in the southern region of the country, primarily in Mulanje and Thyolo. Some estates use out-grower schemes to expand their production volumes, however, few SHFs are engaged overall, thus limiting the potential for social impact from tea production. Of the crops analyzed the tea sector employs the fewest SHFs at 10,500 individuals only.

Tea is sold through the Limbe auction in Malawi or the Mombasa auction in Kenya. The majority of the tea sold from Malawi is raw, and unprocessed. Malawi is yet to distinguish itself as a producer of a specific renowned Malawian brand of tea. For example, Chombe Tea is a local brand that is largely viewed as a low cost, strong flavored variety that is mostly distributed locally. Another Malawian brand, Kericho Gold, has wider international distribution but requires further investment in brand recognition to increase its market base. There is an opportunity for the private sector to process and package tea locally, brand it, and take advantage of Fair Trade labeling options. Given that Malawi is the second largest producer of tea in Africa after Kenya, but is far less known for its tea when compared to Kenya, there is room to increase global awareness of its crop through branded products[136].

Illustrative Investment Opportunities

Some of the investment opportunities in tea include:

[134] FAOSTAT

[135] International Trade Centre

[136] Stakeholder Interviews, Lilongwe, August – November 2012

- Investment in the establishment of a tea estate – Production from such an estate could be supported by SHF outgrowers

- Investment in the processing of a Malawian branded tea – Production of a Fair Trade tea with specific Malawian branding

6.3. *Conclusion*

Malawi's economy has performed strongly and is projected to continue on a similar trajectory. The agriculture sector has largely driven that growth and there is potential to grow the sector further by utilizing Malawi's water, land, and ecological conditions to increase productivity. Furthermore, there are available and growing local and regional markets that are ready to take up agricultural produce from Malawi.

Despite there being some risks, the Government of Malawi has made significant strides towards increasing access for investors who are interested in Malawi. The government is committed to increasing private sector participation in the economy and is working towards demonstrating successes, lowering barriers and reducing the risk and cost of entry for new actors. Some opportunities are near term and ready for investment immediately, while others require further exploration. The window of opportunity for investors to partner with Malawi is now, and Malawi is open for business.

7. Further Information and Contact Details

In parallel to this Private Sector Investment Plan, detailed investment cases were developed for five immediate investment opportunities within five value chains prioritized for short term focus.

The broad information package that Malawi plans to present at the Grow Africa Forum includes:

- Country Narrative — a short description of why Malawian agriculture is attractive for investors
- Investment Prospectus — high-level business cases for investment opportunities and the actions being taken to create a robust enabling environment for these opportunities

To obtain more information on making agricultural investments in Malawi, prospective investors can contact the following organizations:

Malawi Investment and Trade Centre
Aquarius House
Private Bag 302
Lilongwe 3
Malawi
Tel: +265 1 770 800
Fax: +265 1 771 781
Key contacts:
Mr. Clement Kumbemba, Chief Executive Office, ckumbemba@mitc.mw
Mr. Lovemore Ndege, Investment Promotion Executive, lovemorendege@gmail.com / lndege@mitc.mw

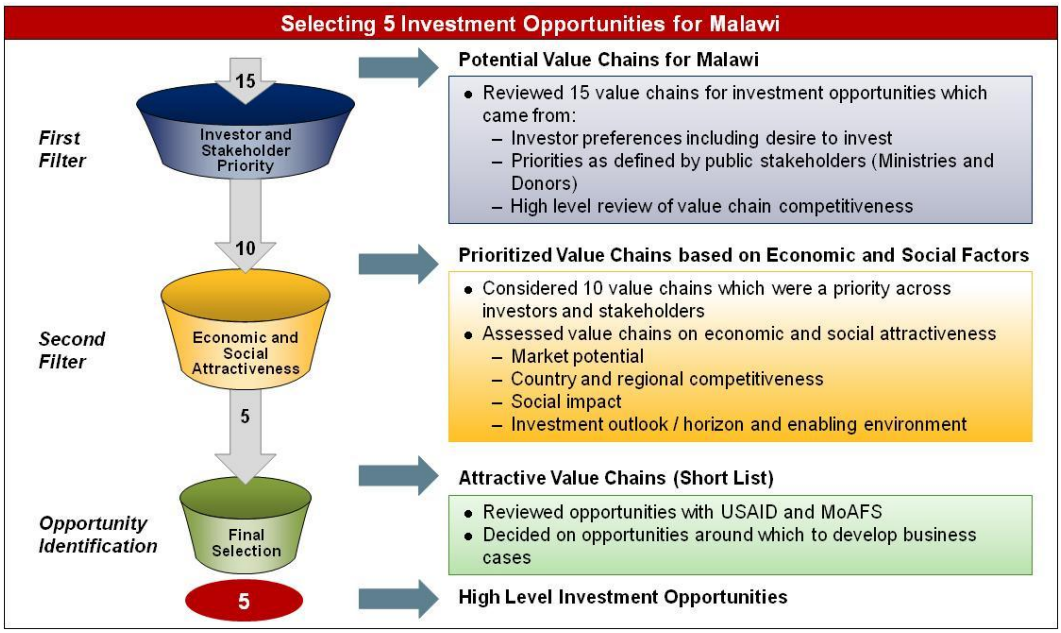
Trade and Investment Divisions at Malawian Embassies
Interested investors can also contact the Trade and Investment Division of the Embassy of Malawi located in their home country.

8. Appendix

8.1. *Framework for Prioritizing Investment Opportunities*

In order to identify and prioritize short-term agricultural investment opportunities, a three-filter framework was employed. The framework for the prioritization of the investments is shown in Figure 40 below, along with further detail about each filter stage.

Figure 40: Three-Stage Framework for Prioritization of Value Chains



Filter 1: Investor and Stakeholder Priority

The first stage of analysis involved garnering private and public sector stakeholder perspectives on value chains and potential investment opportunities. Desktop research was also conducted to identify potential within the value chains. Three key activities were carried out in this stage:

1. **Shared Stakeholder Perspectives**: Identified stakeholder perspectives around various crops, what potential investment opportunities they were aware of or interested in, and what they perceived to be some of the key investment drivers and barriers to investing in Malawi
2. **Current Public Sector Strategy Assessment:** Identified the current agricultural focus areas for the government, what donor strategies are in place to support government initiatives, and perspectives on potential investment opportunities
3. **Value Chain Initial Review:** Conducted desktop research and analysis to identify the potential market for the value chains identified in interviews with the private and public sector, as well as the drivers and barriers to success in each value chain

The outcome of Filter 1 was 9 prioritized value chains which were then earmarked for more detailed analysis. These are shown in Figure 41.

Figure 41: Filter 1 – Prioritized Value Chains

#	Value Chains	1 Stakeholder Priority	2 Strategy Assessment	3 Value Chain Analysis	Selected for Next Stage
1	Chilies	Low	Low	Low	-
2	Coffee	Low	Low	Medium	-
3	Cotton	Medium	Medium	Medium	✓ *Prioritized*
4	Dairy	Low	Medium	Low	-
5	Fish	Low	Medium	Low	-
6	Groundnuts	High	High	High	✓ *Prioritized*
7	Macadamia	Medium	Low	Medium	✓ *Prioritized*
8	Maize	High	Medium	Medium	✓ *Prioritized*
9	Mangoes	Low	Low	Low	-
10	Pigeon peas	Medium	Medium	Medium	✓ *Prioritized*
11	Rice	High	Medium	Medium	✓ *Prioritized*
12	Soybeans	High	High	High	✓ *Prioritized*
13	Sugarcane	High	High	High	✓ *Prioritized*
14	Tea	Medium	Low	Medium	✓ *Prioritized*
15	Tobacco	Low	Low	Medium	-

Filter 2: Economic and Social Attractiveness

The second filter evaluated the economic and social attractiveness of the 9 shortlisted value chains. At this point, one additional value chain, cassava, was added to the list due to increased interest from the Office of the President and Cabinet. Value chains were evaluated on the following four dimensions:

1. **Market potential:** Export values and local and global consumption growth were measured for each value chain. These results were used to track the market potential for each value chain (e.g. higher domestic consumption and export value means a higher rank in terms of market potential).
2. **Competitiveness:** This criterion measured the potential for the value chain to prosper in Malawi, given the current environment and competition in the region. Relative yields, export value, and share of trade against other SADC countries were measured to track each value chain's competitiveness.
3. **Social impact:** This measured the importance of the value chain to Malawi's food security and its potential impact on farmer incomes. The number of farmers reached and the proximity to other products and value chains were the specific metrics used to measure social impact.
4. **Investment Outlook:** This measured investor interest in participating in the value chain.

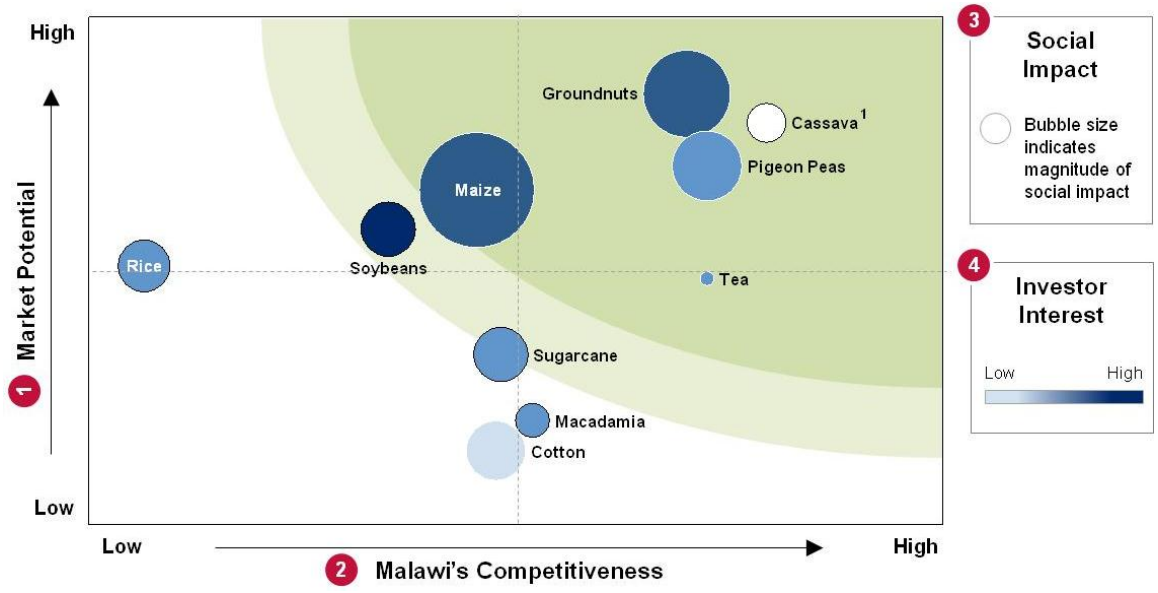
The specific metrics that were used across each dimension are shown in Figure 42.

Figure 42: Filter 2 – Value Chain Prioritization Metrics

Criteria	Metrics	Description
1 Market Potential	1. Local, regional and global market growth 2. Local production growth across value chains (VCs)	1. The growth in consumption of each VC is compared, using a weighting to take into account how much of production is consumed locally, regionally, and globally (*Consumption = Production – Exports + Imports)* 2. VCs are compared based on domestic production growth (CAGR, 2006-2010)
2 Country Competitiveness	1. Relative productivity (yield, MT/ha) 2. Relative price comparison (producer price/MT, export price/MT) 3. Relative production volume (MT) to regional average	1. Malawi's relative productivity is calculated by comparing its yield to the weighted regional average 2. Malawi's producer or export prices are compared to the weighted regional average 3. The difference in volume of Malawi's domestic production or exports[1] is compared to the regional average[2]. Export crops are defined by having greater than 50% of their production exported
3 Social Impact	1. Level of economic proximity[3] 2. Estimated impact on small-holder farmers (SHFs)	1. The level of economic proximity has been adopted from the NES and serves as an indicator of the economic spillover effects a product has within the broader economy 2. Impact on SHFs is assumed to be directly proportional to the number of farmers involved in the production of each crop and is used as a simple measure to estimate the scale of impact that an investment would have on farmer livelihoods
4 Investment Outlook	1. Preferences shared by current private sector actors	1. Investor interest per value chain is determined by assessing the percentage of private sector actors that, during private sector interviews, highlighted a crop as having the highest investment potential relative to the other assessed crops

The results of the metrics were standardized and plotted on a two-by-two matrix, as in Figure 43.

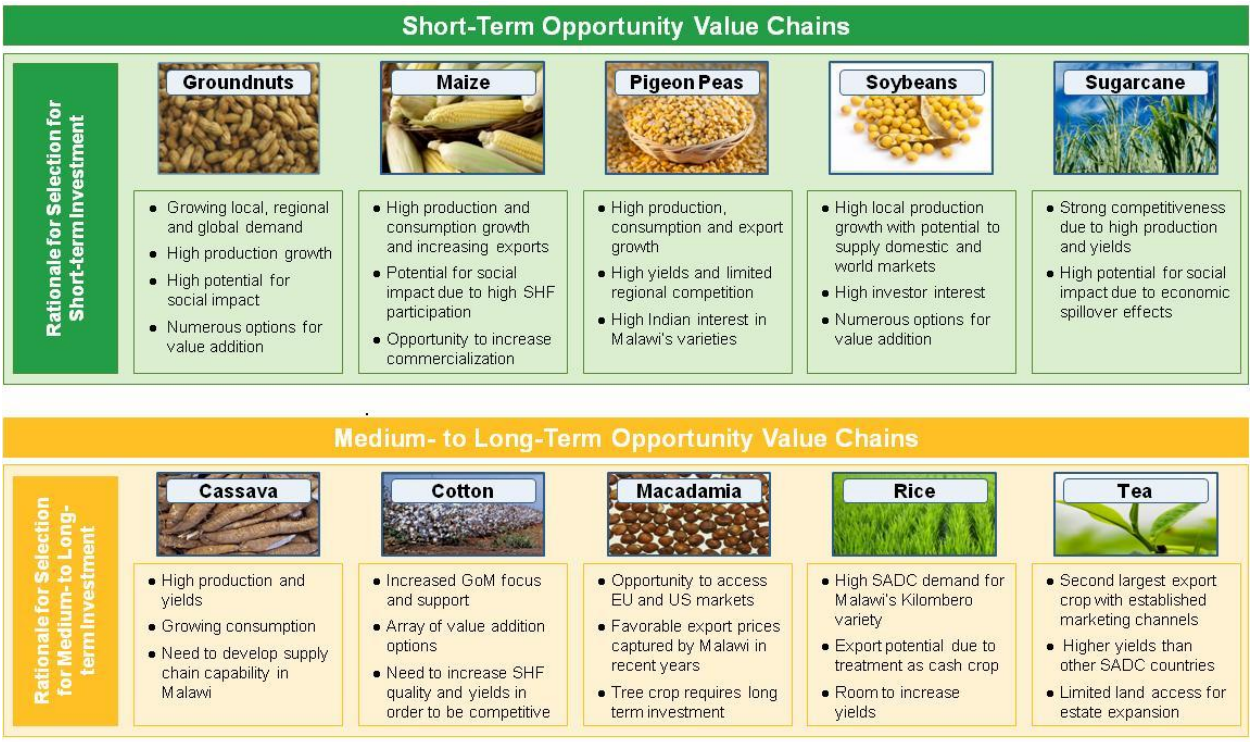
Figure 43: Filter 2 – Performance of Value Chains across Key Metrics



Summary of Filter 2 Analysis Results

This analysis was reviewed with the Ministry of Agriculture and Food Security, with stakeholders and with USAID to finalize the five value chains for identification of short term investment opportunities and business case development. The five value chains selected in this stage, with consensus from the above-mentioned stakeholders, were groundnuts, maize, pigeon peas, soybeans and sugarcane. The remaining five value chains were designated for longer term focus. Figure 44 shows the short- and long -term value chains, and highlights of the supporting rationale.

Figure 44: Filter 2 – Prioritized Value Chains



Filter 3: Final Selection

In this filter, conversations were held with various stakeholders and investors participating or interested in the prioritized value chains in order to develop a shortlist of business opportunities across the prioritized value chains.

These were then prioritized on the basis of an assessment of their attractiveness for investment and the feasibility of investment within the opportunity. Through further consultation with the Ministry of Agriculture and Food Security and USAID, five business opportunities were finalized: a peanut paste plant, a corn-soya blend plant, a pigeon pea contract farming arrangement, a textured soya protein plant and sugarcane contract farming arrangement and processing plant. These are shown in Figure 45.

Figure 45: Filter 3 – Finalized Investment Opportunities for Business Case Development

Value Chain	Investment Opportunity	Description (Excerpt)	Investment Required (est.)	Selected for Business Case
Groundnuts 	**Peanut Paste Processing**	**Investment in existing plant for processing peanuts into paste, sourcing groundnuts in-shell from SHFs**	**USD 2.2 mn**	✓ **Yes**
	Peanut Oil Processing	Investment in existing peanut oil plant for export, sourcing groundnuts from SHFs	USD 5 mn	
Maize 	**CSB**	**Investment in increasing capacity of existing CSB plant to increase volumes for regional export**	**USD 300K**	✓ **Yes**
	Storage	Warehouse receipt system to reduce wastage and increase price realization	USD 20 mn	
Pigeon Peas 	Dhal Processing Plant	Processing of pigeon peas to dhal for export	USD 10 mn	
	Increase Pigeon Pea Production	**Investment in contract farming to produce pigeon peas for raw export or to supply local processors**	**USD 33 mn**	✓ **Yes**
Soybeans 	**Textured Soy Protein (TSP)**	**Investment in new equipment for developing TSP as an input into RUTF[1]**	**USD 6 mn**	✓ **Yes**
	Seed	Greenfield PPP to grow and multiply soybean seed	USD 3 mn	
Sugarcane 	**Contract Farming Estate with Attached Processing Plant**	**PPP in irrigation development to grow sugarcane in a contract farming arrangement for a joint processing plant that provides a ready market for SHFs**	**USD 70mn**	✓ **Yes**